

# FINANCIAL TIMES

World Business Newspaper <http://www.FT.com>

FRIDAY APRIL 30 1999



**FT Weekend tomorrow**  
Signing teapots, planting trees, feigning fascination: the royals go on tour



**Cola wars**  
Trend to Coke/Pepsi duopoly looks unstoppable  
Page 19



**European Central Bank**  
Problem with the message or the messenger?  
Page 18

**Special reports**  
Russia  
Asian Finance  
Separate sections

**PUBLISHED WITH TOMORROW'S WEEKEND FT**

**how to spend it**  
COFFEE MAGAZINE

The seamstress, the fixer, the cook and his chicken

## WORLD NEWS

### South Korea to investigate Hyundai fund over 'misuse'

South Korea is to investigate a popular equity fund managed by Hyundai, the nation's largest conglomerate, for possible misuse of funds. The decision was partly responsible for a 4.7 per cent fall in the Seoul share index yesterday to 752.61 points. Page 20

**German tax faces overhaul**  
A special committee of experts will reveal suggestions today to overhaul Germany's creaking corporate tax system against a background of harsh criticism from industry and judicial rulings that might complicate plans. Europe, Page 3

**Doubts over hedge fund rules**  
The US Congress gave a lukewarm reception to proposals by the Clinton administration to toughen the regulation of hedge funds and other highly leveraged financial institutions. US, Page 3

**New euro clearing system planned**  
The Euro Banking Association is to start developing a low-value payment system to handle small cross-border payments throughout the EU. Europe, Page 3

**Russia struggles over IMF terms**  
The Kremlin will struggle to implement the banking and taxation reforms that the International Monetary Fund is demanding for release of \$4.5bn in loans it has agreed to make to Russia over the next 18 months. Europe, Page 2; Editorial Comment, Page 19

**UK party leader under attack**  
A campaign to oust William Hague as leader of the British Conservative Party and replace him with Kenneth Clarke, a former senior Conservative minister, is being launched by the Pro Euro Conservative party, a new group formed by defectors. Britain, Page 7

**Iraq says 24 injured in attacks**  
Iraq said 24 people were injured when Western aircraft attacked civilian installations and weapons sites in the north and south of the country yesterday. The official Iraqi News Agency said 20 people were injured in Mosul and a further four people were injured in southern Iraq.

**Call for Palestinian funds probe**  
The European Parliament is demanding an investigation into the allocation and management of European Commission funds to the Palestinian-controlled areas of the West Bank and Gaza. International, Page 6

**Trade cover insurance rises**  
The value of new credit insurance cover provided by the world's leading export credit agencies rose 8 per cent last year, in spite of turmoil in many markets. World Trade, Page 6

## BUSINESS NEWS

### Liffe in last ditch move to have US ban overturned

London's futures exchange, whose Frankfurt-based rival Eurex has screens in the US under a 1996 deal, is to apply for a waiver on a regulation banning foreign exchanges from operating in the US in a last ditch attempt to overcome "discrimination". Companies and Markets, Page 21

**MCI WorldCom, US carrier of internet traffic**, revealed a first quarter growth in communications activities of 17 per cent to \$7.9bn. Companies and Markets, Page 21

**United News & Media, UK television and publishing group**, launched a recommended \$920m offer for CMP Media, a US technology media company. Companies and Markets, Page 21; Lex, Page 20; Editorial Comment, Page 19

**Endesa Chile, electricity generator**, was set to be at the fore of a legal battle over a government decision to suspend sale of control of the company to Endesa of Spain. America, Page 3

**UPM-Kymmene and Metsä-Serä of Finland**, and AssiDomän of Sweden, three of Europe's largest forest product companies, reported falls in first quarter profits, underlining the weakness in demand for paper products. Europe Companies, Page 26

**Slam Commercial Bank, Thailand's fourth largest commercial bank**, completed a landmark \$1.75bn capital raising scheme. Companies and Markets, Page 21; Lex, Page 20

**Boeing, US aerospace group**, was in talks to take control of Elipsio, a hand-held satellite mobile telephone group for \$500m. Companies and Markets, Page 21

**SARGroup, parent of Swissair**, is taking a 10 per cent stake in Panalpina, Europe's biggest air-freight broker, and setting up the first fully integrated door-to-door air cargo operation with annual revenues of \$780m a year. Europe Companies, Page 24

**BASF and Hoechst, European pharmaceutical and chemical makers**, reported declining first quarter sales and profits. Europe Companies, Page 24

**SEB, Swedish lender**, reported a modest increase in underlying first quarter profits from SKr1.52bn to SKr1.63bn. Europe Companies, Page 24

**Lex on Amazon.com**  
Asking investors to take a lot on trust  
Page 20

## Insurers risk California ban over Holocaust

State regulators threaten to suspend more than 100 European companies

By John Authers in New York and Avi Machlis in Jerusalem

California regulators have threatened to suspend the business licences of more than 100 European insurers if they do not provide information on their payment of Holocaust victims' insurance claims by May 12.

A group of Californian politicians, from both the Democratic and Republican parties, will publicise the threat at a press conference today in an effort to persuade European insurers to join an international commission trying to reach a global settlement of unpaid Holocaust-era insurance claims. The commission, chaired by former US secretary of state Lawrence Eagleburger, will meet in London next week.

These moves follow calls for sanctions in California, led by Tom Hayden, a Democratic state senator. Mr Eagleburger last week described Mr Hayden's campaign as "pure political posturing".

The Los Angeles-based Simon Wiesenthal Centre will also try to increase pressure on Italian insurer Generali, by introducing two Californian Holocaust survivors who hold unpaid insurance policies from the company.

Five large European insurers - Generali, Allianz of Germany, Axa of France and Winterthur and Zurich of Switzerland - are already members of the commission, but Holocaust survivors believe other European insurers also have unpaid policies.

The companies now being investigated by California include Munich Re, the second largest German insurer after Allianz, and several large insurers which operate in former Soviet bloc countries.

Chuck Quackenbush, California's insurance commissioner, has sent a letter to Munich Re, pointing to a Californian state law which empowers him to suspend an insurer's certificate if it has failed to pay any valid claim from Holocaust survivors.

He said similar letters were being sent to "hundreds" of other companies.

The letter asks Munich Re to tell Mr Quackenbush no later than May 12 whether it issued any policies which would be covered by the law and whether it will voluntarily participate in Mr Eagleburger's commission. If the company does not meet the deadline, Mr Quackenbush says he may be "compelled" to exercise his powers under the law.

Munich Re could not be contacted for comment yesterday.

Mr Quackenbush, a Republican elected last year to his post, stressed that Californian politicians were united. He will be joined at today's press conference in Los Angeles by the state's governor, treasurer and attorney general, who are all Democrats, and by legislators from both parties.

He said: "My goal is to get as many of these companies under the auspices of the commission at the same time as I can. I want this commission to work. But if it doesn't, I have responsibilities to policyholders in my state."

Bobby Brown, the Israeli prime minister's adviser on diaspora affairs and a commission delegate said: "At this point, as long as we believe that the negotiations and discussions are in good faith, those companies that have joined the commission should be given the benefit of finding a solution in a peaceful and unobtrusive way."



Russian envoy Victor Chernomyrdin and German chancellor Gerhard Schröder after talks in Bonn yesterday on the crisis in Kosovo. Mr Schröder said the Nato and Russian positions on Kosovo had grown "nearer". Report, Page 20 AP

## Labour costs in US rise at slowest rate in two decades

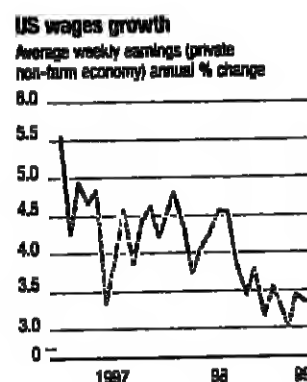
By Gerard Baker and Gautam Malkani in Washington

US labour costs rose at their slowest rate in nearly two decades in the first quarter, in spite of the lowest unemployment rate in nearly 30 years.

The figures show the economy enjoying a virtually unprecedented combination of strengthening demand for labour and declining wage pressures, and they are likely to intensify the debate about whether old measures of economic performance still apply.

The US Labor Department reported yesterday that the employment cost index, which measures all labour-related costs, rose by a seasonally adjusted 0.4 per cent in the first quarter.

That was the lowest figure since the department began compiling the statistics in 1982. In the year to March, total labour costs increased by just 3 per cent, indicating a deceleration in wage costs from the previous year when employment costs rose by 3.3 per cent.



Source: Bureau of Economic Analysis

Financial markets leapt following news of the report. Most analysts saw it as further evidence that the Federal Reserve was under no pressure to raise interest rates in spite of the strong growth of the past three years.

"For the Federal Reserve it means there's no reason for them to act. There's no inflation out there. Our forecast is that the Fed will remain on hold through the end of 2000," said Gerald Cohen, senior economist at Mer-

rill Lynch, the New York investment bank.

Economists bailed the figures as yet more evidence that the old rules that seemed to govern the economy had been demolished.

"It's back to the drawing board for the NAIRU (non-accelerating inflation rate of unemployment) advocates," said David Greenlaw of Morgan Stanley Dean Witter in New York.

The NAIRU, a longstanding tool of economic analysis, says wage pressures accelerate as unemployment falls below a critical level, once thought to be around 5.5 per cent.

Some Fed officials have indicated recently that the traditional relationships between unemployment and inflation may have broken down. A number of economists argue that the continuing ideal conditions are the result of productivity gains at US companies in the past few years, which have all but vanquished inflation.

All this has occurred as the unemployment rate has dropped to 4.2 per cent, its lowest in 29 years.

## Investor warns Volvo off Scania in Swedish truck shares battle

By Tim Burt in Stockholm

Investor, the main vehicle for Sweden's Wallenberg business empire, has launched an attack on Volvo following the Swedish automotive group's decision to increase its hostile stake in Scania, the investor-controlled heavy truck manufacturer.

Volvo stepped up its pursuit of Scania this week by lifting its stake to almost 14 per cent and signalling an intention to acquire more than 20 per cent of its Swedish rival.

Investor, dismayed when Volvo acquired 12.8 per cent of Scania in January, condemned Volvo's latest move and reiterated it would seek an independent future for the heavy truck group.

"Having the strongest competitor as one of the largest owners is, in the long run, totally unacceptable for Scania," said Marcus Wallenberg, Investor chief executive and a Scania board member. He described Volvo's tactics as "damaging and profoundly unfortunate for both companies".

Although he said Scania was open to collaboration in the rapidly consolidating automotive industry, Mr Wallenberg signalled that Volvo would not be its preferred partner. Volkswagen and Fiat have been named as potential allies. Volvo, meanwhile, rejected calls from Investor to sell its Scania stake and hinted it would go on buying shares in the market. There is thought to have been active trading in Scania warrants, which if fully exercised before June would reduce Investor's control of Scania's share capital from 45.5 per cent to 19.6 per cent.

Volvo has made no secret of its ambition to expand in trucks following the SKr50bn (\$6.25bn) disposal of its car division to Ford of the US last month. If it acquired more than 20 per cent of Scania, Volvo could treat it as an associate for dividend purposes - if the dividends would be tax-free if the stake exceeded 25 per cent.

Investor and Volvo broke off talks on a possible offer for Scania this year after failing to agree on a valuation. Investor thought Scania was worth at least SKr270 a share, excluding any bid premium or synergy savings. Including such a premium, it might be worth up to SKr350 a share, equivalent to SKr70bn.

Volvo balked, particularly given Scania's modest share performance since being floated at SKr180 a share in 1996. Since Volvo acquired its stake, the most traded B shares have climbed steadily and yesterday rose SKr9 to SKr230.

Observer, Page 19

WORLD MARKETS		
<b>STOCK MARKET INDICES</b>		
New York Composite	(+31.21)	
Dow Jones Ind. Av.	+10876.66	
NASDAQ Composite	+2507.65	
Europe and Far East		
London	+371.53	
FTSE 100	+34.42	
FTSE Europe 300	+497.6	
Nikkei	+1916.25	
US LUNCHTIME RATES		
Federal Funds	4.5075%	
3-mth Treas. Bills: Yld	4.50%	
Long Bond	5.62%	
Yield	5.53%	
OTHER RATES		
UK 3-mo Interbank	5.1%	
UK 10 yr Govt	110.02	
Euro Eurobor	2.588%	
Germany: 10 yr Bund	99.45	
Japan: 10 yr JGB	104.149	
OIL (BPC)		
Brent (June)	\$16.45	
<b>GOLD</b>		
New York Comex	\$286.2	(286.3)
London	\$283.55	(283.25)
<b>DOLLAR</b>		
New York Composite	1.6107	
£	0.6924	
Sfr	1.5773	
¥	119.145	
London:		
£	1.6114	(1.6151)
£	0.9442	(0.9405)
Sfr	1.5189	(1.5124)
¥	119.125	(119.155)
Tokyo		closed
<b>EURO (London)</b>		
£	1.0581	(1.0533)
£	0.8573	(0.8563)
£	126.155	(126.898)
Sfr	1.6087	(1.6062)

© THE FINANCIAL TIMES LIMITED 1999 No.33,895  
London • Leeds • Paris • Frankfurt • Stockholm • Milan • Madrid • New York  
Chicago • Los Angeles • Tokyo • Hong Kong

Euro-zone target price (€2.15. Prices in local currency as shown)		
Bahrain	Dir1,300	10,285
Belgium	Bfr900	12,229
Canada	US\$4.00	10,285
CIS	US\$19.00	10,285
Czechia	US\$19.00	10,285
Denmark	DKK34.00	10,285
Ecuador	US\$1.00	10,285
Finland	Fmk1,300	10,285
France	FFr14.00	10,285
Germany	DM1.00	10,285
Greece	Dr100	10,285
Hungary	For100	10,285
Ireland	Ir£100	10,285
Italy	Lira1,000	10,285
Japan	Yen100	10,285
Korea	Won100	10,285
Latvia	Ls100	10,285
Lithuania	LtL100	10,285
Luxembourg	Lfr100	10,285
Netherlands	Fl1.00	10,285
Norway	Nkr100	10,285
Poland	Zlot100	10,285
Portugal	Esc200	10,285
Romania	Lei100	10,285
Spain	Ptas100	10,285
Sweden	Skr100	10,285
Switzerland	Sfr100	10,285
Syria	Syr100	10,285
Taiwan	NT\$100	10,285
Thailand	THB100	10,285
UK	£100	10,285
USA	US\$100	10,285

For subscription information please contact:  
Subscription Sales Department, The Financial Times Limited,  
Number One Southwark Bridge, London SE1 9UL  
Tel: +44 171 873 4200 Fax: +44 171 873 3420  
E-mail: [FT.Subs@FT.com](mailto:FT.Subs@FT.com)

**Chopard**  
GENÈVE  
depuis 1860

The new movement  
**L.U.C.**  
Heir to a proud watchmaking tradition

The automatic movement generated by Chopard is called L.U.C. - short for Louis-Ulysse Chopard - in tribute to the company founder. Setting this fine caliber off in its best advantage, the L.U.C. men's watch is produced in limited series of 1800 in yellow gold, rose gold, white gold and platinum. Ref. 111/1100. Available at leading watch-specialists worldwide. London: Chopard Boutique, 14 Ave. Road Street, Tel. 0171 499 3110. For further information, Chopard (Great Britain) Ltd, 25-26 Old Burlington Street, London W.1X 1LB. Tel. 0171 499 3304. Fax 0171 499 3400.

CONTENTS	
World News: The Americas 3,	Companies & Finance: 21-30
International 6,	Europe 24,
Asia Pacific 4,	The Americas 22,23,
Trade 6, UK 8	Asia Pacific 27, International 26,
European News: 2,3	UK 28,30,
Management/Technology: 16	Capital Markets 32
Comment & Analysis: 18,19	World Stock Markets: 38-44



# WORLD NEWS

## KOSOVO CRISIS

WAR IN EUROPE FEARS GROW OF INSTABILITY IN SOFIA AND PODGORICA ■ NOTION OF GROWING SERB DISSENT VIEWED AS MISTAKEN ■ WARNINGS OVER WAR'S FINANCIAL IMPLICATIONS

## Opposition to war rises in Bulgaria

By Kevin Hope in Athens

Bulgaria's pro-western government yesterday faced mounting opposition to Nato's air campaign against Yugoslavia after an anti-aircraft missile strayed off course and damaged a house in the capital Sofia.

The opposition Socialist party stormed out of parliament when deputies from the governing centre-right coalition refused to summon Ivan Kostov, the prime minister, to answer questions about the incident.

The missile, which Nato acknowledged as one of its own, demolished the roof of a house in the Gorna Banya suburb on Wednesday night, but there were no injuries. Bulgarian radio stations said that a child was being treated in hospital for shock.

Bulgaria's parliament is to approve in the next few days a cabinet decision to open the country's air space to Nato aircraft, in return for a temporary security guarantee from the alliance.

Like Albania and Macedonia, its south Balkan neighbours, Bulgaria wants to exploit the opportunity of the Kosovo war to accelerate its application for Nato membership. It has backed Nato's proposals for an oil embargo against Yugoslavia.

Analysis in Sofia said the decision was unlikely to be overturned, as Mr Kostov's coalition has a strong majority. "Political stability isn't at risk. But the missile incident will widen the gap between the government and public opinion, which is strongly against becoming involved in a Balkan war," a western analyst said.

Several missiles have landed in Bulgaria without causing damage since Nato aircraft started bombing targets in southern Serbia. Concern is growing that Sofia, only 45km from Bulgaria's border with Serbia, may be caught in the crossfire if air strikes are launched from Bulgarian airspace.

Alexander Tzomov, head of the pro-western Euroleft party, said: "People are becoming very frightened because we're so near Serbia. They are against [Yugoslav President Slobodan] Milosevic's policy of ethnic cleansing in Kosovo, but most believe Bulgaria should stay out of the war."

More than 65 per cent of Bulgarians are opposed to Nato's bombardment of Yugoslavia, according to opinion polls. While relations are cool between Serbia and Bulgaria, the Kosovo war is expected to take a heavy economic toll.

Three-quarters of Bulgaria's exports to Europe went by truck through Serbia or along the Danube river, which is blocked by debris from bridges destroyed in the air strikes in Serbia.

Sergei Stankov, a Socialist party official, said: "In popular opinion, there's not much affinity with the Serbs. We fought them in four wars over the past century. But we still have to go on living with them as neighbours."

The war has a financial impact in three ways: the cost to Nato member states of the bombardment against Serbia; the impact of the bombardment on the economies of the Balkans and nearby European Union countries; and the cost of protecting refugees and rebuilding the economy of Serbia and neighbouring states. It is the last of these three consequences that is of the greatest concern.

For now, the cost of Operation Allied Force remains of only moderate worry to Nato states. The US is providing two-thirds of the aircraft and most of the cruise missiles used in the operation. It has spent around \$1bn since the air strikes began on March 24. Congress this week voted for a \$125bn package that would allow the US to continue the operation for much of the rest of the year. But the US has a \$111bn budget surplus this year and is well capable of embracing these costs.

Financial markets also seem largely untroubled by the burden the war is placing on national budgets. The euro has dropped in value by

around 3.5 per cent since the conflict began, but this has been largely due to worries about European economic growth.

"The financial markets do not seem to have taken the cost of the war to governments very seriously, as can be seen from the failure of European bond yields to widen," says Paul Meggs, currency strategist at Deutsche Bank in London.

If the war lasts beyond the summer, however, problems could arise. First, funding might become a matter of concern to European governments, many of which must maintain tight budgets under the terms of Europe's growth and stability pact.

According to 4Cast, a London-based economics consultancy, a protracted war involving a ground invasion could amount to an overall burden of around \$320bn for the 15 Nato states. The consultancy points out that this is still just 0.2 per cent of Nato's combined \$17,000bn gross domestic product and well below the \$102bn overall cost of the 1991 Gulf war.

But the budgets of some euro-zone countries – such as France and Italy – are close to the stability pact's 3 per cent ceiling. For these countries, much could depend on how the costs of the operation are divided up once the war was over.

"Nato has not yet decided whether costs should be shared equally or whether some of the burden should be paid by those states that have not directly participated in the operation," said one UK official this week. Moreover, failure to

resolve the war by the summer would raise concerns about the future of the half million Kosovo refugees in Albania and Montenegro, thousands of whom are living in makeshift tents.

The Italian government, which has set aside \$250bn (£129m, \$177m) providing refugee protection, is becoming increasingly concerned about this. "The cost of protecting the refugees would be astronomical if the conflict were to go into the second half of the year," said Antonio Fazio, Bank of Italy governor. "In Albania and Macedonia, people won't survive in tents."

The second area of concern is the impact on the European economy. The World Bank and the IMF warned this week that Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Mac-

edonia and Romania would all face severe macro-economic consequences from the conflict, with a collective balance of payments gap of around \$15bn.

Some EU governments, notably Italy, are also expressing worries about the impact of the war on their economies. Mr Fazio again warns it could take up to 0.2 percentage points off his country's GDP this year because of the dampening effect on tourism and the closure of some Italian airports. In a year that is already seeing Italy's economy slow down, Italian officials barely disguise their worries.

However, it is the cost of rebuilding Serbia and parts of the Balkan region after the conflict is over that is mainly worrying policy-makers.

The war has already seen severe damage to Yugoslavia's infrastructure, including the petrochemical plant at Pancevo, the petrol refinery at Novi Sad and part of the Telecom Serbia telephone network.

The European Commission estimates the cost of post-war economic reconstruction in the Balkans would be around \$80bn. The Yugoslav authorities have put the figure at \$100bn. In any event, the IMF is reported to believe that the overall cost of rebuilding the region will double if the conflict goes on beyond the summer. At some stage, worries will grow about which countries and international organisations pick up the bill.

Alan Beattie in London and Deborah MacGregor in Washington contributed to this report.

The contract processing of shoes and textiles in Montenegro for companies mainly in Italy and Germany had been stopped, as had most exports from the wood processing industry.

Mr Djukanovic – no relation to President Milo Djukanovic – said if Nato entered its planned oil embargo on the republic's ports, "it would be the end of Montenegro. It would cause a change of government, bring the collapse of the economy and would be a humanitarian catastrophe". An oil embargo "would strengthen the forces of Slobodan Milosevic and could even provoke civil war here. That would be the worst result, no one can be interested in a civil war here".

Montenegro is dependent for its oil supplies on the imports of oil products through its main port of Bar, which accounts for 90 per cent of incoming shipments. The remaining 10 per cent is imported through the small port of Lipci in the Bay of Kotor, the base of the Yugoslav navy.

"We want to enter Europe and to realise reforms, but we have many obstacles placed by Europe," Mr Djukanovic said.

## Claims of Belgrade rifts dismissed

By Guy Dinnars in Rome

Nato's belief that the recent sacking of Vuk Draskovic from the government in Belgrade has revealed divisions within the Yugoslav regime and budding popular dissent is badly mistaken, according to analysts in Belgrade.

Mr Draskovic, removed on Wednesday as deputy prime minister after proposing a United Nations-led peace-keeping force for Kosovo province, had never been close to the president's "inner circle". Analysts said he had wielded no authority and was only brought out of opposition and into the government in January.

There was, however, concern in the government

when Mr Draskovic's outspoken interviews – to foreign reporters and on his own party-controlled television station – began to encourage other opposition figures to break their silence and speak out.

Robin Cook, the British foreign secretary, yesterday challenged Slobodan Milosevic, Yugoslav president, to air a "startlingly frank" interview given to the BBC by Vuk Obradovic, a former general and leader of the small opposition Social Democratic party. The interview was censored by the Yugoslav military.

Clare Short, Britain's international development minister, said the sacking of Mr Draskovic, a western-

leaning moderate, was a good sign because it showed a "massive crack in the government". Nato on Wednesday had spoken of "green shoots" of democracy emerging in Serbia.

But analysts noted that Mr Draskovic and Mr Obradovic had run a distant third and fourth in elections for the Serbian presidency in 1997, coming far behind Vojislav Seselj, an extreme nationalist, who is now also in government, and the eventual winner, Milan Milutinovic, of Mr Milosevic's ruling Serbian Socialist party.

Mr Draskovic, one of the main leaders of anti-Milosevic protests in the winter of 1996-97, alienated many of his supporters when he

joined the coalition government this year. "He may see himself as an eventual successor to Milosevic but I believe he is finished politically," said one former follower of Mr Draskovic's monarchist Serbian Renewal Movement.

Although in Belgrade there are some figures among the intelligentsia ready to criticise both the regime and Nato, outside the capital, Mr Milosevic has boosted his popular following. One opposition figure said he was being likened to Prince Lazar, the Serb hero who died fighting for Kosovo against the Turks in 1389.

Analysts said Nato and the western powers had failed to come to grips with the reali-

ties of the cut-throat nature of Serbian politics. A similar error of judgment was made at the start of the air campaign, when US officials in particular assumed Mr Milosevic would back down after just a few days of bombing.

In reality, the powerful bosses of industry and politics see their survival as dependent on that of Mr Milosevic and know they have no future should he be removed.

By contrast, the various small, western-oriented, democratic parties are weak, fragmented and unable to come up with a joint platform on Kosovo. Overriding the political divide is the common sense of fear.

## Vujanovic urges economic support

By Kevin Done in Podgorica

Nato's growing bombing campaign in Montenegro is destroying the economy and playing into the hands of Slobodan Milosevic, Yugoslav president, said the prime minister of the small, pro-western republic yesterday.

As Montenegro suffered its first civilian casualty from the Nato air strikes, Filip Vujanovic appealed to Nato to stop the bombing and abort plans for a blockade of oil imports to the republic.

The air strikes – of which there were at least three more waves yesterday – was "making it very difficult to explain to the population that we have the support of the international community," Mr Vujanovic told the FT. "Nato should do everything to exclude Montenegro from the bombing."

Vojin Djukanovic, economy minister, called for immediate economic support from western governments.

"We must very soon have economic help, given the state of the economy and with 100,000 refugees in the country," said Mr Djukanovic. "If we do not get this help soon, the whole system in Montenegro will collapse."

Montenegro, which has a population of only 650,000, is already sheltering an estimated 65,000 refugees from Kosovo and 30,000 from the earlier war in neighbouring Bosnia-Herzegovina.

Around 40 per cent of the workforce is unemployed, said Mr Djukanovic. The port of Bar, which had already been working at around 50 per cent of capacity before the bombing, was now operating "at almost nothing, 5 to 10 per cent of capacity perhaps".

Tourism, which has traditionally been a large source of employment, had been "devastated". The steel plant at Niksic was operating at only 30 per cent of capacity and soon would have to halt production because of the bombing of its railway supply routes.

The contract processing of shoes and textiles in Montenegro for companies mainly in Italy and Germany had been stopped, as had most exports from the wood processing industry.

Mr Djukanovic – no relation to President Milo Djukanovic – said if Nato entered its planned oil embargo on the republic's ports, "it would be the end of Montenegro. It would cause a change of government, bring the collapse of the economy and would be a humanitarian catastrophe". An oil embargo "would strengthen the forces of Slobodan Milosevic and could even provoke civil war here. That would be the worst result, no one can be interested in a civil war here".

Montenegro is dependent for its oil supplies on the imports of oil products through its main port of Bar, which accounts for 90 per cent of incoming shipments. The remaining 10 per cent is imported through the small port of Lipci in the Bay of Kotor, the base of the Yugoslav navy.

"We want to enter Europe and to realise reforms, but we have many obstacles placed by Europe," Mr Djukanovic said.

Roman Popkovich, head of the parliamentary defence committee, argued Russia should adopt a new military doctrine reserving the right for first use of nuclear weapons. Germany and Canada have recently been pressing Nato to rule out the first use of nuclear weapons because the balance of conventional forces in Europe has changed to such an extent that Nato should no longer fear a mass invasion by Russia.

## Governments turn their attention to cost of conflict

Concern is rising over how countries and organisations will divide the bill, write James Blitz and Andrew Balls

More than a month after the start of the Yugoslav war, western governments are increasingly turning their attention to its financial implications.

The human cost of the conflict remains at the forefront of public attention, of course. But in recent days, senior officials from Nato governments, the European Commission and the International Monetary Fund have issued warnings about its potential economic consequences.

The war has a financial impact in three ways: the cost to Nato member states of the bombardment against Serbia; the impact of the bombardment on the economies of the Balkans and nearby European Union countries; and the cost of protecting refugees and rebuilding the economy of Serbia and neighbouring states. It is the last of these three consequences that is of the greatest concern.

For now, the cost of Operation Allied Force remains of only moderate worry to Nato states. The US is providing two-thirds of the aircraft and most of the cruise missiles used in the operation. It has spent around \$1bn since the air strikes began on March 24. Congress this week voted for a \$125bn package that would allow the US to continue the operation for much of the rest of the year. But the US has a \$111bn budget surplus this year and is well capable of embracing these costs.

Financial markets also seem largely untroubled by the burden the war is placing on national budgets. The euro has dropped in value by

around 3.5 per cent since the conflict began, but this has been largely due to worries about European economic growth.

"The financial markets do not seem to have taken the cost of the war to governments very seriously, as can be seen from the failure of European bond yields to widen," says Paul Meggs, currency strategist at Deutsche Bank in London.

If the war lasts beyond the summer, however, problems could arise. First, funding might become a matter of concern to European governments, many of which must maintain tight budgets under the terms of Europe's growth and stability pact.

According to 4Cast, a London-based economics consultancy, a protracted war involving a ground invasion could amount to an overall burden of around \$320bn for the 15 Nato states. The consultancy points out that this is still just 0.2 per cent of Nato's combined \$17,000bn gross domestic product and well below the \$102bn overall cost of the 1991 Gulf war.

But the budgets of some euro-zone countries – such as France and Italy – are close to the stability pact's 3 per cent ceiling. For these countries, much could depend on how the costs of the operation are divided up once the war was over.

"Nato has not yet decided whether costs should be shared equally or whether some of the burden should be paid by those states that have not directly participated in the operation," said one UK official this week. Moreover, failure to

resolve the war by the summer would raise concerns about the future of the half million Kosovo refugees in Albania and Montenegro, thousands of whom are living in makeshift tents.

The Italian government, which has set aside \$250bn (£129m, \$177m) providing refugee protection, is becoming increasingly concerned about this. "The cost of protecting the refugees would be astronomical if the conflict were to go into the second half of the year," said Antonio Fazio, Bank of Italy governor. "In Albania and Macedonia, people won't survive in tents."

The second area of concern is the impact on the European economy. The World Bank and the IMF warned this week that Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Mac-



Face of destruction: An ethnic Albanian in a Macedonian refugee camp, the remains of a bridge in the Serbian city of Novi Sad and the smoke of a burning oil refinery over Novi Sad

Reuters/AP

edonia and Romania would all face severe macro-economic consequences from the conflict, with a collective balance of payments gap of around \$15bn.

Some EU governments, notably Italy, are also expressing worries about the impact of the war on their economies. Mr Fazio again warns it could take up to 0.2 percentage points off his country's GDP this year because of the dampening effect on tourism and the closure of some Italian airports. In a year that is already seeing Italy's economy slow down, Italian officials barely disguise their worries.

However, it is the cost of rebuilding Serbia and parts of the Balkan region after the conflict is over that is mainly worrying policy-makers.

The war has already seen severe damage to Yugoslavia's infrastructure, including the petrochemical plant at Pancevo, the petrol refinery at Novi Sad and part of the Telecom Serbia telephone network.

The European Commission estimates the cost of post-war economic reconstruction in the Balkans would be around \$80bn. The Yugoslav authorities have put the figure at \$100bn. In any event, the IMF is reported to believe that the overall cost of rebuilding the region will double if the conflict goes on beyond the summer. At some stage, worries will grow about which countries and international organisations pick up the bill.

Alan Beattie in London and Deborah MacGregor in Washington contributed to this report.

The contract processing of shoes and textiles in Montenegro for companies mainly in Italy and Germany had been stopped, as had most exports from the wood processing industry.

Mr Djukanovic – no relation to President Milo Djukanovic – said if Nato entered its planned oil embargo on the republic's ports, "it would be the end of Montenegro. It would cause a change of government, bring the collapse of the economy and would be a humanitarian catastrophe". An oil embargo "would strengthen the forces of Slobodan Milosevic and could even provoke civil war here. That would be the worst result, no one can be interested in a civil war here".

Montenegro is dependent for its oil supplies on the imports of oil products through its main port of Bar, which accounts for 90 per cent of incoming shipments. The remaining 10 per cent is imported through the small port of Lipci in the Bay of Kotor, the base of the Yugoslav navy.

"We want to enter Europe and to realise reforms, but we have many obstacles placed by Europe," Mr Djukanovic said.

Roman Popkovich, head of the parliamentary defence committee, argued Russia should adopt a new military doctrine reserving the right for first use of nuclear weapons. Germany and Canada have recently been pressing Nato to rule out the first use of nuclear weapons because the balance of conventional forces in Europe has changed to such an extent that Nato should no longer fear a mass invasion by Russia.

Montenegro is dependent for its oil supplies on the imports of oil products through its main port of Bar, which accounts for 90 per cent of incoming shipments. The remaining 10 per cent is imported through the small port of Lipci in the Bay of Kotor, the base of the Yugoslav navy.

"We want to enter Europe and to realise reforms, but we have many obstacles placed by Europe," Mr Djukanovic said.

### KOSOVO UPDATE

#### Milosevic files suit on strikes

Yugoslavia asked the United Nations' World Court to rule that Nato air attacks on its territory are unlawful. The US, one of 10 states named in the papers filed yesterday morning, called the suit "absurd and frivolous".

#### Schröder to visit Albania

Gerhard Schröder, German chancellor, agreed to visit Albania and said the country needed generous assistance to maintain its internal stability following an influx of over 350,000 Kosovo Albanian refugees.

"This is why there should be really generous help for Albania," said Mr Schröder after a meeting with Pandeli Majko, Albanian prime minister. Albania, together with Macedonia, has so far been granted some \$250m (\$265m) of aid from the EU, a sum seen as inadequate. No date has been set for Mr Schröder's visit.

#### UK sends more warplanes

Britain said it was sending eight more warplanes to beef up Nato air strikes on Yugoslavia. George Robertson, defence secretary, said four more Harrier jump-jets and four

#### Romania to join EU oil embargo

The Romanian government said starting next week it would observe an EU-approved fuel embargo on Yugoslavia. The EU has appealed to Cyprus and 11 eastern European nations who are seeking membership to join the embargo, which is meant to choke off oil for the Yugoslav war machine.

#### Jesse Jackson starts mission

Jesse Jackson arrived in the Balkans on a mission to win freedom for three captured US soldiers. He and members of his delegation of religious leaders hope to meet Yugoslav President Slobodan Milosevic as well as the prisoners.

#### UK sends more warplanes

Britain said it was sending eight more warplanes to beef up Nato air strikes on Yugoslavia. George Robertson, defence secretary, said four more Harrier jump-jets and four

#### Romania to join EU oil embargo

The Romanian government said starting next week it would observe an EU-approved fuel embargo on Yugoslavia. The EU has appealed to Cyprus and 11 eastern European nations who are seeking membership to join the embargo, which is meant to choke off oil for the Yugoslav war machine.

#### Jesse Jackson starts mission

Jesse Jackson arrived in the Balkans on a mission to win freedom for three captured US soldiers. He and members of his delegation of religious leaders hope to meet Yugoslav President Slobodan Milosevic as well as the prisoners.

## Attack on Nato states over refugees

By Haig Simonian in Berlin

A leading member of Germany's ruling Social Democratic party has attacked some of Bonn's closest Nato partners for not taking in enough refugees from Kosovo.

Peter Struck, the SPD parliamentary leader, said it was "incredible" France and the UK had accepted relatively few refugees at a time when Germany had commit-

ted itself to housing 10,000 victims of the fighting. "We have completely fulfilled our obligations and expect the other European Union nations to follow suit," Mr Struck said in a report in the Bild newspaper.

Gerhard Schröder, chancellor, and Otto Schily, interior minister, have recently expressed concern about the failure of some EU countries to live up to commitments

made last month to house Kosovo refugees. Neither politician, however, has singled out individual EU members for criticism.

Germany, which accepted the biggest contingent of refugees, has also been one of the first countries to organise relief flights. A first batch of refugees arrived in Bavaria some weeks ago, followed by regular flights to other parts of the country.

EU countries have offered to house up to 44,000 refugees. However, Germany says that only 12,000 refugees have been taken in – of which 10,000 have found shelter in Germany.

"We can't talk about taking in any more refugees until the other European states fulfil their pledges," said Mr Struck.

Germany, a haven for war-zone refugees in recent years, took in 350,000 people fleeing the 1992-95 war

in Bosnia-Herzegovina. Separately, Günther Beckstein, the Bavarian interior minister, criticised Austria for failing to fulfil its promise to house 5,000 refugees. He said only 1,000 had been housed in Austria so far.

Mr Beckstein turned down calls from some of his counterparts, such as Richard Dewes, the Thuringian interior minister, that Germany should accept a further 50,000 refugees.

Germany, a haven for war-zone refugees in recent years, took in 350,000 people fleeing the 1992-95 war

in Bosnia-Herzegovina. Separately, Günther Beckstein, the Bavarian interior minister, criticised Austria for failing to fulfil its promise to house 5,000 refugees. He said only 1,000 had been housed in Austria so far.

Mr Beckstein turned down calls from some of his counterparts, such as Richard Dewes, the Thuringian interior minister, that Germany should accept a further 50,000 refugees.

Germany, a haven for war-zone refugees in recent years, took in 350,000 people fleeing the 1992-95 war

in Bosnia-Herzegovina. Separately, Günther Beckstein, the Bavarian interior minister, criticised Austria for failing to fulfil its promise to house 5,000 refugees. He said only 1,000 had been housed in Austria so far.

## Russia faces struggle to pass reforms demanded by IMF

By Joanna Whelan in Moscow

The Kremlin will struggle to implement the banking and taxation reforms that the International Monetary Fund is demanding for release of \$4.5bn in loans it has agreed to make to Russia over the next 18 months.

Lending could begin after the next IMF executive board meeting in July and is likely to be part of a \$7.5bn package including funds from the World Bank and Japanese government. Moscow has been desperate to repair its relations with lenders since they froze funds last August following the financial crash.

Pushing the controversial reforms through parliament

by July will be no small feat, not least because the legislature on May 13 will begin debate on the possible impeachment of President Boris Yeltsin.

According to Alexander Zhukov, head of the Duma's budget committee, the IMF is asking for legal action in five areas: passage of a new bank restructuring law; improvement of an existing law on bank bankruptcies; raising of excise taxes on alcohol and petrol; raising of the value added tax to 20 per cent; and relaxing restrictions on foreign exchange.

Deputies, who face an election in December, are sure to fight the increase in excise taxes because it would cause unpopular growth in con-

sumer prices. Mr Zhukov said. Legislators' close ties to powerful bankers could also thwart any measures to expedite the bankruptcy or restructuring of Russia's insolvent banks.

Michel Camdessus, managing director of the IMF, on Wednesday said the Fund would disburse about \$3bn over the first twelve months, which, combined with funds from other lenders, would be just enough to cover Russia's payment obligations to the IMF of \$4.9bn for the twelve-month period beginning July 1.

The money, however, will in effect be shifted from one IMF pocket to another, never being remitted to Russia. "The IMF programme is

tight – it's a lot of reforms and very little money," said Peter Boone, head of research at Brunswick Warburg in Moscow. Even if the reforms are passed, the IMF package will not help Russia meet steep foreign debt payments of roughly \$1.4bn in May and June. Russia will have to pay an additional \$1.3bn in July – mostly to the IMF – if the new programme is not approved.

The new loans are also contingent on the results of a central bank audit that the Fund requested after Russia admitted it had used a shell company based in the British Channel Islands to manage central bank reserves.

See Editorial Comment

Russia announced yesterday it would put more emphasis on developing tactical nuclear weapons in framing its national security needs up to 2010. The move signals Moscow may be preparing to lower the threshold for using nuclear weapons to battlefield situations.

In a theatrical move, President Boris Yeltsin chaired a meeting of the security council and agreed three documents outlining Russia's nuclear defence priorities. In front of television cameras, Mr Yeltsin swore the members of the security council to total secrecy.

But later, Vladimir Putin, head of the FSB, the internal security service, said the security council had adopted a new concept for developing and using non-strategic

## Nuclear doctrine changes

By John Thornhill in Moscow

Russia announced yesterday it would put more emphasis on developing tactical nuclear weapons in framing its national security needs up to 2010. The move signals Moscow may be preparing to lower the threshold for using nuclear weapons to battlefield situations.

In a theatrical move, President Boris Yeltsin chaired a meeting of the security council and agreed three documents outlining Russia's nuclear defence priorities. In front of television cameras, Mr Yeltsin swore the members of the security council to total secrecy.

But later, Vladimir Putin, head of the FSB, the internal security service, said the security council had adopted a new concept for developing and using non-strategic



## CORPORATE BURDEN OPTIONS FOR REFORM

## German tax overhaul to be unveiled

By Naig Simonian in Berlin

A special committee of experts will reveal today suggestions to overhaul Germany's creaking corporate tax system against a background of harsh criticism from industry and judicial rulings that might further complicate the government's plans.

With company tax levels of up to 60 per cent, reform has long been on the agenda.

Many observers argue high domestic taxes have forced German groups to invest abroad and acted as a disincentive to outside investment in Germany.

When the new government took power in October, reducing the burden, especially on the small and middle sized companies that form the backbone of the economy, was a crucial part of the coalition programme to bolster the economy and create jobs.

In their pact, the Social Democrats (SPD) and environmentalist Greens agreed to cut company tax to 35 per cent.

More controversially, they said the reforms - to be broadly self-financing - would include eliminating many of the tax breaks which have enabled Germany's biggest companies to lower their tax bills to more internationally competitive levels.

However, while the government has closed many of the loopholes it has, as yet, done little to alleviate the overall burden on business.

Today's report will set out ways the government's aims can be reached.

The committee of academics, industry representatives and local government tax experts will not offer a single strategy but propose various options, which will in turn receive more detailed analysis.

However, the committee's efforts have, in recent weeks, been overshadowed by broader political and judicial events.

First, Oskar Lafontaine, the fiery SPD finance minister who proposed the study, resigned to be replaced by the more pragmatic Hans Eichel.

Mr Eichel shares his predecessor's and his party's interest in eliminating loopholes for big companies and stimulating investment among smaller ones.

But since taking office, his focus has been on reducing the yawning budget deficit.

"The budget, the budget and the budget are his priorities right now," says an official.

Matters have been further complicated by a number of court decisions, which have distracted the government's attention and placed unexpected burdens on its spending plans.

This week, the Federal Financial Court - the second highest tribunal after the Federal Constitutional Court - ruled a 1994 law creating differential tax levels for businessmen depending on the source of their income illegal.

Although apparently an issue of private, rather than corporate, tax, the court ruling is relevant to the commission's reform study because most of Germany's companies are private and legislation in force now does not always distinguish clearly between private and corporate income.

The ruling has triggered speculation the government may have to compensate some taxpayers and has further distracted attention from the broader corporate tax reform.

The government, by contrast, argues the week's ruling has underlined the urgency of reforming corporate taxation.

## Union finds unity of purpose

War has brought the EU together, but a delay in appointing Romano Prodi could end its dynamism, says Peter Norman

For once the European Union is living up to its name. The Kosovo war has so far produced a unity of purpose among the 15 member states, other decisions are being taken with a marked absence of squabbling and EU membership is more than ever a goal for associate and other nations in eastern, central and southern Europe.

"It is a really fascinating development," said Günter Verheugen, the minister of state at the German foreign ministry responsible for Europe. "In the shadow of this very serious crisis, Europe is pulling closer together."

Mr Verheugen was speaking after negotiations in Luxembourg this week in which the EU, under its German presidency, agreed to ban the sale of oil and oil products to Yugoslavia. It also tightened sanctions against Belgrade, rapidly resolved a series of potentially contentious internal EU issues and began putting flesh on its promises to support south-eastern Europe.

One of the war's most striking effects has been the impetus it has given to closer ties between the EU and its neighbours to the east and south-east. After their regular monthly meeting EU foreign ministers had long-scheduled talks with Ukraine, Romania, Slovakia

and Estonia on Monday and Tuesday that were unusually friction-free.

Subsequent meetings with the EU "troika" (comprising Germany, Austria and Finland) and Albania and Macedonia confirmed plans for a rapid move towards granting them associate status with its promise of eventual EU membership.

Further evidence of a growing identity of interests between the EU and other European states was Wednesday's announcement that the EU's 10 eastern and central European associates, Cyprus and the Efta countries belonging to the European Economic Area had joined the oil ban.

Mr Verheugen also detected "an improvement of decision making inside the EU that began with the EU council in Berlin", the March 24-25 summit which reached a compromise on the Agenda 2000 reforms of the EU's budget, farm and regional policies for the next seven years.

The EU foreign ministers this week reached rapid accord on a full agenda ranging from future EU-US relations to the pay and conditions of members of the European Parliament. The European Commission's new "white paper" on competition policy this week showed how the 20 commissioners,

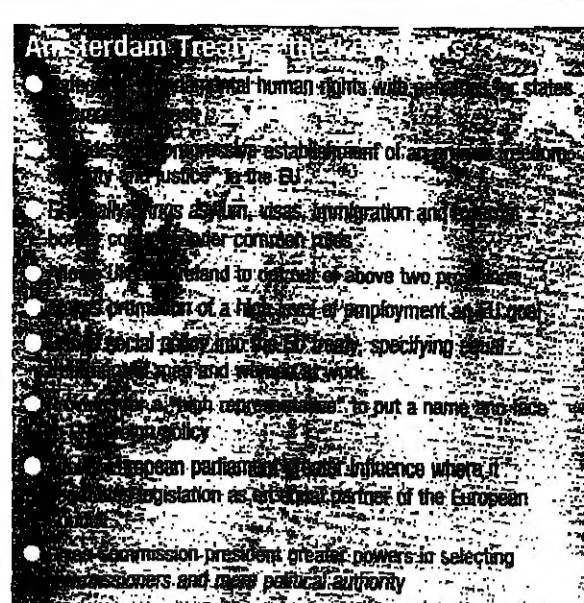
who resigned *en masse* last month, are interpreting their caretaker role in an increasingly activist manner.

But will such dynamism continue? Institutionally, the omens are fair. The EU embarks on a new chapter of its development tomorrow with the entry into force of the Amsterdam Treaty which was intended to rectify some of the shortcomings of the 1992 Maastricht Treaty on European Union.

The Amsterdam treaty will mean a greater emphasis on citizenship and the rights of individuals, more democracy in the shape of increased powers for the European Parliament and a formal focusing of EU policy on the problem of unemployment. It aims to develop a common foreign and security policy, including the appointment of a high representative - dubbed Mr or Ms PESC after the French acronym - to personify EU foreign policy.

But the treaty failed to address many of the difficulties to be overcome when enlarging EU membership to 20 or more in the coming decades. Issues such as reforming the composition of the Commission and increasing the use of qualified majority voting to improve decision making are therefore on the agenda of the EU's June summit in Cologne, which is due to initiate negotiations among member states for a further EU treaty.

The Kosovo conflict is also certain to accelerate discus-



sions about Europe developing its own security and defence identity to cope with future crises. But it is not yet clear whether the current war-induced sense of unity and the EU's reaching out to the countries to the east and south will translate into support for far-reaching internal integration or "deepening" the union.

Much will depend on the progress of the war. Its successful prosecution is also a precondition for rallying non-EU members behind the projected "stability pact" for south-eastern Europe.

But there are other uncertainties, not least the risk of a prolonged hiatus before Romano Prodi, the EU Commission president-designate, takes over with his own team of commissioners.

Two weeks ago, Gerhard Schröder, the German chancellor, suggested Mr Prodi

and the new executive could be in office by early August. But that would require the new European parliament, to be elected in June, to be extremely co-operative and arrange special sessions to handle the confirmation hearings.

According to one senior member of parliament, the new Commission is more likely to take office at the end of September or mid-October, while parliamentary objections to any person nominated as a commissioner could add another month to six weeks delay.

This is all very frustrating for Mr Prodi, not least because he says Europe "has to act very fast" in south-east Europe. "I am ready," he said in Brussels this week. But, referring to his limited power to act at this stage, he added: "The legal problem is difficult."

● The European Commission has dropped an investigation of long-distance telephone charges by national operators in Finland, Austria and Portugal, but is continuing to investigate operators in Luxembourg, Ireland, Italy and Greece.

The EU executive began looking into "accounting rates", or charges between telecommunications operators for carrying calls, in 1997 amid concerns over excessive margins.

The Commission said Finland, Austria and Portugal had cut rates by 26 to 28 per cent. But rates were still being reviewed at Postes et Télécommunications Luxembourg, Telecom Italia and OTE of Greece.

Learning the hard way, Page 18

## Plan for company payment deadline

By Neil Buckley in Brussels

Companies would have to pay suppliers within 30 days of receiving a bill or face standard punitive interest charges across the European Union, under new legislation agreed by EU industry ministers yesterday.

The rules, which still have to receive the assent of the European parliament, aim to tackle the problem of late payments, a crippling burden on small and medium-sized businesses. They would set minimum EU-wide standards in place of sometimes ineffective national laws.

If companies did not pay suppliers within 30 days of receiving an invoice they would have to pay compensatory interest of at least six percentage points above the European Central Bank's repurchase rate - currently 2.5 per cent - or the national equivalent.

EU governments would also be set a target of reducing to 90 days the maximum time necessary for companies to win a legal order to recover disputed debts - though the legal mechanism is left to individual states.

The European parliament, which shares responsibility for the measure, will consider the plans in the autumn.

● The European Commission has dropped an investigation of long-distance telephone charges by national operators in Finland, Austria and Portugal, but is continuing to investigate operators in Luxembourg, Ireland, Italy and Greece.

The EU executive began looking into "accounting rates", or charges between telecommunications operators for carrying calls, in 1997 amid concerns over excessive margins.

The Commission said Finland, Austria and Portugal had cut rates by 26 to 28 per cent. But rates were still being reviewed at Postes et Télécommunications Luxembourg, Telecom Italia and OTE of Greece.

## Banks to start new euro clearing system

By George Graham in London

Leading European banks are to start work on a new system to handle small cross-border payments throughout the EU.

The Euro Banking Association, which already runs a clearing system handling €200bn (\$212bn) of payments a day, is to start developing a low value payment system. It hopes to have it operating before the introduction of euro notes and coins in 2002.

Eric Sepkas, deputy chairman of the EBA, said: "The decision to focus now on a low value payments project has been driven by our members' need to develop an effective payment solution for their customers."

Banks have come under attack from consumer associations and the European Commission for not making large enough cuts in the price of transferring money to other countries since the introduction of the euro.

But although the euro has eliminated the currency risk involved in transfers, it has not got rid of the expense of moving money between payments systems that remain national. A cheque denominated in euros can still be cleared only in the country in which it is issued.

The EBA system was built to handle relatively large volumes. It deals with 67,000 out of an estimated total of 400,000 euro cross-border transactions a day. But the

cost per transfer remains too high to be attractive for low value payments.

● Money supply growth in the euro-zone remained above the European Central Bank's preferred level in the first three months of this year, but was not so high as to threaten its anti-inflation strategy, according to ECB figures published yesterday.

writes Tony Barber in Frankfurt.

The bank's three-month moving average of M3 broad

money supply growth rose by an annual 5.2 per cent from January to March, compared with a revised 5.0 per cent for the period from December to February. The ECB had estimated the December-February increase at 5.1 per cent.

The ECB sets a level of 4.5 per cent for its three-month moving average but has said that the M3 growth is no risk to price stability.

Learning the hard way, Page 18

## THE AMERICAS

## Congress lukewarm over fresh hedge fund rules

By Gerard Baker in Washington and Tracy Corrigan in New York

The US Congress gave a lukewarm reception yesterday to proposals by the Clinton administration to toughen the regulation of hedge funds and other highly leveraged financial institutions.

Senior congressmen indicated the plans could run into heavy opposition from the Republican-controlled Congress.

A spokesman for Phil Gramm, chairman of the Senate Banking Committee,

said the issue was not an immediate priority and repeated the senator's view that the problem of lending to highly-leveraged institutions was better addressed by banks than by regulators. Administration officials said Mr Clinton's proposals, announced yesterday, were designed to reduce the risk of a repeat of the near-collapse last autumn of Long Term Capital Management (LTCM), and the accompanying market turmoil. Under the proposals, hedge funds would be required to make public for the first time

quarterly information on their financial condition.

Hedge fund managers said they were relieved the proposals stopped short of direct regulation, which would have driven them offshore, but some said they were concerned about the impact of publicly revealing proprietary information on trading positions.

"I don't mind telling the SEC [Securities and Exchange Commission] or a credit officer [of a bank] but this is sensitive stuff," said one hedge fund manager.

Also under the proposals,

lenders to hedge funds would be forced to disclose specific information about their exposure; regulators would be given new powers to examine risk assessment procedures at currently unregulated affiliates of some financial institutions; bankruptcy laws would be reformed to allow financial contracts to be unwound more easily; and regulators would consider stronger incentives to encourage offshore financial centres to comply with international standards.

The proposals require

three pieces of legislation: one to enact the bankruptcy reforms, the others forcing hedge fund disclosure and empowering regulators to enjoy expanded risk assessment authority for the unregulated institutions.

Congressional officials indicated that while Republicans were likely to accept the bankruptcy proposals, there would be significant opposition from some to the others.

Many Republicans think last year's episode at LTCM was an isolated one which does not require an overhaul

of the regulatory framework. Others argue the US should not embark on such an overhaul until other countries also toughen their rules.

"The margin requirements for bond trading should be increased," said Charles Gradante, chief investment officer at Hennessey Hedge Fund Advisory Group, which advises investors on hedge fund investments. However, he said greater scrutiny of banks' own exposure to hedge funds would help address the issue.

A Wall Street working group is due to announce its

own industry guidelines in June.

Mr Gradante said that although hedge fund managers would dislike the paperwork involved, "most hedge funds have nothing to hide".

Jim Cramer, a hedge fund manager and Wall Street commentator described the proposals as "fabulous". "It was ridiculous that one hedge fund could have almost brought down the financial system. I don't know how [LTCM] got away with it. It's high time hedge funds played by the same rules as everyone else."

## Circle of blame widens in the aftermath of school massacre

The finger is being pointed at all those remotely responsible for what happened last week. Patti Waldmeir reports

Last week's school massacre in Littleton, Colorado, has provoked a full-blown crisis of national morality for Americans.

A wide circle of blame is being drawn around all those directly or remotely responsible for what happened.

But in America, every moral crisis must have a legal dimension. Experts on liability and criminal law say it is an ever shorter step from blame to allegations of legal liability, civil or criminal.

So in the end, much of this crisis will be played out in the courts - though legal scholars and practitioners say they doubt that the law can compel the kind of cultural change needed to tackle juvenile violence.

With the two killers already dead, the search for blame must focus on third parties: parents, teachers, principals and fellow students, as well as gun manufacturers, moviemakers, and companies such as AOL which provide access to violent internet sites.

Already, Colorado law enforcement officials are preparing to charge one of the parties allegedly most closely linked with the crime: the person who pro-

vided the two minors with the guns. But the net of liability is also being flung further from the epicentre of responsibility: police have hinted that they may seek charges against the two boys' parents, under a Colorado law which makes it a felony for an adult to permit a child to possess a firearm if he knows there is a "substantial risk" that the youth will use it to commit a crime.

The large number of weap-

ons, and who "knowingly or recklessly" allow a crime to occur. Some states already make parents liable for damage caused by their children in vandalism or crimes, even if they had no prior knowledge of it.

There is also likely to be a flood of civil liability lawsuits brought by victims' families after Colorado's thirty day mourning period, which keeps lawyers away from victims, has elapsed.

In previous school shoot-

**A wide range of third party suits appear likely. However, legal experts have begun to question whether such suits will deter future crimes**

ings, parents of the killers have been sued under their homeowners' policies, which provide limited civil liability coverage. But lawyers have recently sought better funded targets: victims' families in a 1997 Kentucky shooting are seeking \$130m in damages from the makers and distributors of the movie *The Basketball Diaries* and the video game *Mortal Kombat*, which allegedly inspired the killers' crimes.

Earlier this week, President Bill Clinton sent a bill to Congress which would create a new federal crime, attracting mandatory sentences, for parents who allow children access to

guns, parents of the killers have been sued under their homeowners' policies, which provide limited civil liability coverage. But lawyers have recently sought better funded targets: victims' families in a 1997 Kentucky shooting are seeking \$130m in damages from the makers and distributors of the movie *The Basketball Diaries* and the video game *Mortal Kombat*, which allegedly inspired the killers' crimes.

Earlier this week, President Bill Clinton sent a bill to Congress which would create a new federal crime, attracting mandatory sentences, for parents who allow children access to

The recent wave of lawsuits brought by US cities against gun manufacturers is broadly part of the same trend: an attempt to extend liability beyond the individual, to those who produce and distribute weapons. Last week's events have turned the tide of public opinion further against the gun manufacturers in those lawsuits.

It is too soon to tell whether the Littleton shooting will provoke another gun lawsuit. But legal experts say a wide range of third party suits are likely, and they have begun to question whether such suits, which often arise out of either displaced revenge or displaced grief, will deter future crimes.

"The [civil] courts are a crude mechanism for producing social change," says Cass Sunstein, a constitutional law professor at the University of Chicago. Jail sentences or fines for criminal liability may have a greater deterrent effect than civil damages awards, he says, but in the end the solution lies elsewhere.

Criminal liability cases are very hard to prove: Colorado law requires that prosecutors prove parents knew of a substantial risk of violence - not just "ought to have known".

"That requires knowledge and a decision not to intervene," says Mimi Wesson of the University of Colorado law school. "The real problem is, how do you prove what the parents knew?"

Tough criminal laws risk turning parents into informers: but their responsibility

to inform could in some cases collide with the privacy right of the children involved, lawyers say.

Indeed many of the proposed legislative solutions to the violence - including gun control and restrictions on the internet - could also potentially collide with constitutional rights such as the first amendment right to free speech and the second amendment right to bear arms.

But constitutional law experts say many of these challenges are more political than constitutional. Laurence Tribe, a law professor at Harvard University, says the first amendment leaves room for government to take action against those who aid and abet a crime, even over the internet.

And though there is much dispute about the second amendment right to bear arms, Prof Tribe thinks the amendment guarantees a "minimal right of personal self defence" - not the right "to keep and bear sawed off shotguns".

Most of the proposed solutions have been symbolic in any case. President Clinton's gun control proposals - ranging from child safety locks to a mandatory waiting period for gun purchases - would hardly have stopped the Littleton killers.

Third party liability cannot, on its own, solve the cultural crisis. "It's a delusion to think that if we shove this responsibility off on to the parents we absolve ourselves of collective responsibility," says Prof Tribe.



Father and mother with distressed daughter after the shooting AP

## Copycat school shooting

One Canadian student died and another was seriously wounded after a high school shooting that is being seen as a copycat crime inspired by the Littleton, Colorado murders, Edward Alden reports from Toronto.

A 14-year-old boy in Taber, an Alberta town of 8,000 people near the US border, was charged yesterday with one count of first degree murder and a second count of attempted murder. Police said he entered the school on Wednesday afternoon and fired four shots from a

semi-automatic rifle. The incident has badly shaken Canadians who thought the country's tough gun control laws would prevent shootings similar to those in the US. Police would not reveal where the teenager obtained the rifle, but said an investigation showed that both gun and ammunition had been properly stored in compliance with firearms laws.

The 14-year-old, whose name cannot be published, has been described as an outcast by other students.

## Chile faces Endesa battle

By Mark Mulligan in Santiago and Tom Burns in Madrid

The Chilean government faces a damaging legal battle with shareholders of Endesa Chile, the country's largest electricity generator, over a decision to suspend the sale of control of the company to Endesa of Spain.

Enersis, Chile's largest electricity distributor and the Spanish group's local investment vehicle, along with institutional shareholders yesterday vowed to contest a last-minute decision by the anti-monopolies commission to block the \$2.15bn sale of 34.7 per cent of Endesa Chile, scheduled for yesterday.

Pedro Corona, president of the association representing the country's eight private pension funds, which control 26 per cent of Endesa Chile, said: "This is surprising and damaging for the country and for workers."

"The pension funds have threatened legal action against the government for loss of profits on the share sale."

In Madrid, Rodolfo Martín Villa, chairman of Endesa Spain and Enersis, said the company would "not throw in the towel".

"Chile has long boasted about having a liberal and open economy. What has happened inevitably damages that image," he said.

The commission's blocking move, announced late on Wednesday, comes amid a worsening energy crisis in central Chile, where drought has forced companies such as Endesa, which relies heavily on hydro-electric plants, to ration supplies. Daily two-hour blackouts in the greater Santiago area have provoked street demonstrations against the government and power utilities, and created the biggest political crisis for the administration of President Eduardo Frei since the detention of the former dictator, General Augusto Pinochet, in London last October.







**And we APPRECIATE it.** For 20 years he has known that his company's growth depends on reliable Bullitt information systems. Today, an IT network is crucial to his company's survival. As his new team grows, we've helped him solve his problems one by one, using experience gained implementing 100,000 other Bull systems. [www.bull.com](http://www.bull.com)

# Bull



## WORLD TRADE

CHINESE POWER WEAK DEMAND FOR ELECTRICITY MEANS NO OPPORTUNITIES FOR FOREIGN INVESTORS FOR THREE YEARS

## Beijing shelves plans for nuclear plant

By James Harding in Shanghai

China has ruled out starting any new nuclear power projects in the next three years in response to the weak electricity demand of a slowing economy.

The ban on fresh construction of nuclear plants illustrates how the rapid build-up of conventional power stations in the 1990s has transformed China from a country of electricity blackouts and power shortages to a market where in many places energy is now in over-supply.

Beijing's decision is also likely to be a short-term blow to foreign companies aiming to supply nuclear technologies to China, particularly those US businesses only just breaking into the Chinese market after finally winning Washington's approval to sell nuclear equipment just over a year ago. Shen Wenqun, a senior official at the China Nuclear Industry Corporation responsible for the development of nuclear energy in China, said yesterday the prohibition on new building was taken because

of the falling demand for power as a result of the Asian economic crisis. State-owned enterprises have been operating at undercapacity, Mr Shen said, further explaining the weakness of demand.

But, Mr Shen said: "This does not mean bleak prospects for nuclear power development in China." The official Xinhua news agency quoted him telling a conference in Shanghai that "both domestic and overseas investors should not lose sight of a great potential market demand for nuclear power

in this country."

Westinghouse of the US has recently signed an agreement with the Shanghai Nuclear Engineering Research and Design Institute to share technology in order to develop a nuclear reactor, the official China Daily reported this week. The agreement is part of the company's efforts to position itself for future sales of nuclear equipment in the Chinese market.

China has two nuclear power stations under commercial operation, one in Qinshan just south of Shang-

hai and the other at Daya Bay in the prosperous southern province of Guangdong.

Two others are already under construction and are due to be completed by 2006, raising the share of nuclear energy in China's total power output to 3 per cent from 1 per cent. US companies have calculated that the Chinese market for nuclear reactors and related supplies could amount to over \$50bn during the next 15 years.

But, more than a dozen provinces in China have also started preparatory work for

new nuclear plants, which will have to be shelved for at least three years.

The prohibition on new nuclear projects is part of a broader government effort to curb construction of more power plants in China. The China Development Bank, the government policy bank for infrastructure lending, announced earlier this year that new power projects would find it hard to get loans this year and has restricted lending to renovation of existing facilities and the upgrade of China's power grid.

## Value of credit insurance cover increases by 8%

By Guy de Jongh in Paris

The value of new credit insurance cover provided by the world's leading export credit agencies rose 8 per cent last year, in spite of the economic turmoil in many emerging markets.

The increase, to \$381bn, was entirely due to the growth of short-term business in developing countries. The value of agencies' medium and long-term business, typically for capital goods, stagnated or fell.

Total new business for investment insurance, mainly to cover inward investment projects, rose 40 per cent last year to \$12.25bn.

François David, president of the Berne Union, an international grouping of 44 credit and investment insurers, said the results showed its members had continued to support economies during a period of regional difficulty.

The weakness in longer-term business last year was due to a fall in demand in countries, particularly in east Asia, which had been forced by economic turmoil to cancel or scale back large capital goods purchases.

Mr David, who is chairman of Coface, the French credit insurance group, said his members believed the recent economic recovery in south-east Asia would continue, led by South Korea and Thailand, which were perform-

ing more strongly than forecast.

He expected growth in Malaysia to resume next year, but said there were still big questions about the prospects for Indonesia.

The outlook for the region depended, above all, on the performance of the Japanese and Chinese economies, Mr David said. He saw no return to growth in Japan this year, but believed a modest recovery was still possible there next year.

He expected China to record 8 per cent growth this year. He believed that it would not devalue its currency, because doing so would provide no solution to China's economic problems, which lay mainly in its banking sector and state-owned enterprises.

Mr David said Berne Union members' concerns about Latin America were shifting from Brazil, which was recovering well from its recent crisis, to Argentina.

The biggest question about Argentina was not whether the government was pursuing sound economic policies, but whether the country could cope with the social and political strains they were likely to impose.

Mr David said his members foresaw no change in the prospects for Russia, which was in any case marginal to the world economy. In India, the main uncertainty was about the country's future political stability.

## Satellite telephone groups eye developing world's rural areas

By Mark Turner in Nairobi and Christopher Price in London

When Samuela Njiru needs to order the Tuskier village of 600 people in Kenya's central highlands, he travels 7km to the nearby towns of Muranga or Sagana. "We have been asking for a telephone for three years, but they never answer anything,"

However, his wish could soon be answered. Villagers in the developing world have become the unlikely targets of some of the world's biggest satellite phone groups as they struggle with how to make their multi-billion dollar systems profitable.

Iridium, the first global satellite hand-held mobile phone service, has run into difficulties just five months after its launch with the expected demand from business travellers failing to materialise. Since its launch it has attracted only 10,000 subscribers, against analysts' expectations of 10 times that figure.

For three of its rivals, which are due to launch similar products over the next two years, the search for new markets and customers has led them to eye the millions of people in rural areas of south-east Asia, Africa and Latin America.

Just how some of the poorest people in the world are supposed to afford a mobile phone call is unclear, but the companies targeting the village phone market - ICO Global Communications, Globalstar and Ellipso - pledge that their services will be affordable.

Gerald Helman, Ellipso



One of Globalstar's satellite-based telephone kiosks expected to cost between \$1,000 and \$2,500 each

vice president of international affairs, says it intends to cut the cost of calls to as little as 8 cents a minute, even less in some circumstances. "We will pitch our price points to what our markets can afford."

Juliet Leclerc, director of rural and remote telephony for ICO, the UK-based satellite operator, thinks even the

poorest villagers will keep something aside for that special call. "Our research suggests no matter what your income is, you will always have something left to spend on a phone call."

Mr Njiru estimates he spends around Ks40 (61 US cents) each on his twice weekly phone visits. At the Sagana Kwa Vi

shopping centre, 15 minutes drive from Kabuta, enthusiasm for phones is also evident. After asking for "a long, long time", Washira Mwaniki Kanyo, a shopkeeper, finally obtained a peeling red public telephone booth three months ago. "There is no other telephone in this area. People need it for their business."

Patrick Ubugu, a stone-cutter, says Mr Kanyo performs a great service by taking orders for the 1,000 or so workers who live in the area. He also likes to use the telephone twice a month, at Ks15 (23 US cents) a time, to speak to his sister in Embu. "It works quite well. I can normally get her after two or three tries."

ICO, which is spending about \$3bn on its system, reckons that revenues from its village scheme will account for as much as 10 per cent of the group total. For the \$1.5bn Ellipso system, which is backed by Boeing, the figure rises to as much as 25 per cent.

Both companies intend to use local telecommunications partners to install phone booths to house the satellite phones, and to sell their services.

They also point out the village market has always been seen as a prime target because of the lack of telecommunications infrastructure and the solution satellites immediately provide.

But difficulties of Iridium, which has been forced to renege on its debts, has underlined problems the yet-to-launch systems face, and underline the importance of the developing world in the companies' business plans.

## NEWS DIGEST

## AIRCRAFT NOISE DISPUTE

## Brussels confirms delay for ban on 'hushkits'

The European Union yesterday confirmed that it was delaying new aircraft noise restrictions for a year, averting a trade dispute with the US. The legislation would have banned additional older aircraft fitted with engine mufflers, or "hushkits", from being added to national registers from this month. Similar aircraft registered in third countries would have been banned from flying in the EU after April 2002 if they were not already operating by this month.

The US, biggest manufacturer and user of hush-kits, disputes EU claims that hush-kitted aircraft do not always meet modern noise standards. It warned its industry would be hit hard by the ban, and threatened to ban Concorde flights to the US if it went ahead.

EU ministers in Luxembourg yesterday adopted the rules, but delayed the start date until May 2000, allowing an extra year for registration of hush-kitted aircraft, and for further consultations between the two sides.

US officials welcomed the delay as a constructive move to reduce tensions. But ACI Europe, the European airports' lobby, condemned the EU's "climbdown", saying European citizens living near airports would suffer as a result. Neil Buckley, Brussels

## AIRLINE ALLIANCE

## Aer Lingus to join Oneworld

Aer Lingus, the Irish Republic's national airline, yesterday sought government backing for a strategic alliance with Oneworld, a consortium which includes British Airways and American Airlines. The Aer Lingus board accepted the management's recommendation to adopt a joint proposal from BA and American, who will sponsor Aer Lingus's membership.

The decision to take a strategic partner paves the way for a possible public flotation of shares in Aer Lingus. The proposal envisages that the consortium take a 10 per cent equity stake in Aer Lingus. Separately, the management is considering selling a further 5-10 per cent share to Aer Lingus staff under an employees share option scheme.

Oneworld also includes Cathay Pacific, Canadian Airlines and Quantas. Finnair and Iberia are about to join. John Murray Brown, Dublin

## VIETNAMESE GAS

## Pricing deal unlocks scheme

The Vietnamese government and state-owned PetroVietnam yesterday signed an outline agreement on gas pricing, lifting the prospects for a proposed \$1.5bn development of Vietnam's offshore gas reserves.

The Nam Con Son project involves the development of 2 trillion (2,000bn) cubic feet (TCF) of offshore gas in Vietnam's Lan Tay and Lan Do fields, and the construction of a 370km pipeline to carry the gas to thermal power stations at Phu My, south-east of Ho Chi Minh City.

Once built, the pipeline will be large enough to carry gas from adjacent fields in the Nam Con Son Basin with a further 3 TCF of reserves.

Talks on the project began in 1993. Despite being declared a project of strategic national importance in 1997, the Nam Con Son negotiations were hitherto plagued by differences between Vietnam's state-owned oil and power utilities over the gas price. No details of the final price agreed have been released.

PetroVietnam also signed two additional memorandums of understanding with BP Amoco, Statoil and India's ONGC Videsh, covering construction of the offshore pipeline, and government guarantees.

Detailed negotiations will now begin on up to a dozen specific agreements covering the project's implementation, including gas sales to end users. Jonathan Birchall, Hanoi

## INTERNATIONAL

MISMANAGEMENT CLAIMS EUROPEAN PARLIAMENT REPORT POINTS TO WEAKNESSES IN GAZA AND WEST BANK PROJECTS

## Euro-MPs demand Palestinian aid inquiry

By Judy Dempsey in Jerusalem

The European Parliament is demanding an investigation into the allocation and management of European Commission funds to the Palestinian-controlled areas of the West Bank and Gaza.

The demand was made by Lord Tomlinson, British Labour member of the European Parliament and rapporteur of the committee on budgetary control. This week, he presented to Manuel Marin, acting Commission vice-president for the Mediterranean and Middle East, a report drawn up after

a visit last month to the West Bank and Gaza.

The report claimed that the Commission's office in east Jerusalem was badly managed, lacked an organisational framework, that the Commission in Brussels had been "gripped by collective inertia" and that projects in the West Bank and Gaza were often mishandled, leading to "false promises, late payments and poor results".

At stake, say Commission officials, is the credibility and effectiveness of the European Union's financial and technical co-operation programme to the West

Bank and Gaza. This was set up after the launch of the Middle East peace process in 1991 and began running over a five-year period from 1994. It aimed to support economic and social development in Palestinian Authority-governed areas.

Total aid, including member state contributions, has amounted to €1.68bn (\$1.78bn), including funds from the Community budget and European Investment Bank loans amounting to €700m making the EU the largest donor to the Palestinian Authority (PA).

All the more reason,

argues the budgetary control committee, for a need for transparency as well as full accountability about how funds are allocated and how projects are managed. The record, said the committee, was far from impressive, with an "aloof bureaucracy on the ground out of touch with local needs".

Commission officials said their work had been hampered by Israeli closures on the West Bank and Gaza, a PA administration that had been slow to develop and lack of staff.

The committee's report, however, said such reasons

did not explain why the EU's Gaza hospital, built and equipped in 1996 remained empty and without an international management team to run it. The EU, which provided €50m, took over the hospital after UNRWA, the original project manager, was incapable of either building or managing it. "It's not our job to run a hospital. We were thrown into it," said a Commission official.

The Commission was also criticised for a housing project designed to provide relatively cheap housing for Palestinians on a modest salary and offering a maximum

price range of up to \$35,000. The committee claimed that due to an inadequate level of control and discipline, costs spiralled to \$55,000.

On the day-to-day management level, the budgetary committee claimed that support staff based in Gaza were working in Jerusalem but claiming travel expenses to their nominal place of work. There were claims that the Commission employed a driver in Gaza although the car was used in the West Bank, leading staff in Gaza to claim taxi fares when travelling between Jerusalem and Gaza City.

price range of up to \$35,000. The committee claimed that due to an inadequate level of control and discipline, costs spiralled to \$55,000.

On the day-to-day management level, the budgetary committee claimed that support staff based in Gaza were working in Jerusalem but claiming travel expenses to their nominal place of work. There were claims that the Commission employed a driver in Gaza although the car was used in the West Bank, leading staff in Gaza to claim taxi fares when travelling between Jerusalem and Gaza City.

The Commission was also criticised for a housing project designed to provide relatively cheap housing for Palestinians on a modest salary and offering a maximum

price range of up to \$35,000. The committee claimed that due to an inadequate level of control and discipline, costs spiralled to \$55,000.

## Khatami presides over end of 2,500 years of centralised rule

Iran's President Mohammad Khatami inaugurated Tehran's first elected local council yesterday, fulfilling a major campaign promise and completing a grassroots democratic experiment first proposed 20 years ago. Reuters reports from Tehran.

The 15 members of the Tehran council, predominantly reformers and Khatami loyalists, took the oath of office in a small wood-paneled hall next to the main city office building.

Similar ceremonies were scheduled across Iran in thousands of cities, towns and villages after polls in February designed to help extinguish a legacy of 2,500 years of centralised rule and expand popular participation in government.

Election officials say about 280,000 candidates competed for 130,000 council seats, in races first outlined in the 1979 constitution but never before implemented. In addition, 60,000 people were elected as reservists.

"We are witnessing one of the most evident manifestations of people's control over their own destiny," Mr Khatami told the council members and a small assembly of ministers, leading MPs and senior clerics. "The people have taken a decisive step towards freedom and national pride."

But the festive atmosphere was coloured by news reports that Tehran's suspended mayor, a key ally in Mr Khatami's election and subsequent reform efforts, had been ordered to begin a two-year jail term on charges of graft.

Mr Khatami, a Shi'ite Muslim cleric, was elected in 1997 on a populist platform of expanded social and political liberty within Iran's Islamic system.

He used yesterday's swearing-in to push back existing barriers to freedom and to

challenge what he said was an Iranian tradition of unity based on authoritarian rule. "Let's recognise that we have an historic disease, that we have been subjected to this type of unity. The revolution freed people from the chains of this unity but the after-effects of the disease still linger on," Mr Khatami said.

In a direct challenge to the conservative establishment that has put up obstacles to his reform programme, Mr Khatami said he would slide over a hardline rival and the subsequent victory of fellow reformers in the council polls were true expressions of popular will. His reforms, he promised, would prevail.

"This government also emanates from the popular vote," he said. "In the last presidential election each side said what it really meant. The people's vote was not accidental."

The polls in Tehran, Iran's most politicised city, were marred by a row over the qualifications of five reformist candidates, all of whom went on to win seats. Conservatives sought to bar the candidates from running, and then attempted to ban them from the councils after the results were in.

But Mr Khatami and his interior minister, in charge of such elections, side-stepped the challenge and all five were present yesterday to take their oaths of office. A letter read out from supreme leader Ayatollah Ali Khamenei apparently signalled final approval of the results.

Among the first duties of the council is the appointment of mayors, a process in Tehran that takes on special importance with the arrest order for Gholamhossein Karbaschi, the capital's mayor convicted of graft in a trial his supporters say was



President Khatami speaking yesterday at the inauguration of the first Tehran elected city council Reuters

politically motivated. The official Iran news agency said Mr Karbaschi had been given one week to report to Evvin prison to begin his sentence.

His imprisonment will be a blow to Mr Khatami, who has backed Mr Karbaschi

against the charges raised by the conservative-led judiciary.

Moderates say the case was an attempt to undermine Khatami's liberal political and social reforms. The judiciary has repeatedly denied the charge.

## Former Algerian premier to set up new party

By Randa Khalaf in London

Mouloud Hamrouche, Algeria's former prime minister, said yesterday he was setting up an opposition party to channel the discontent of youth into peaceful political expression.

After seven years in which the population has been caught in the fight between the regime and Islamist extremists at the cost of more than 70,000 lives, Mr Hamrouche's decision is a sign of political changes to come in Algeria.

Mr Hamrouche, who led the reformist wing of the National Liberation Front (FLN), the former ruling party, is one of three presidential candidates establishing new political parties. The other two are Ahmed Taleb Ibrahim, a former foreign minister backed by Islamists and Mokdad Sifi, another former prime minister.

They were among the six candidates who withdrew on the eve of presidential elections earlier this month, charging it was being rigged to the benefit of Abdelaziz Bouteflika, who ended up as the sole candidate.

Mr Hamrouche was the architect of Algeria's first economic reforms and the backer of political liberalisation when he was prime minister between 1989 and 1991.

In a country where the opposition has been either Islamist or Berber-based, he intends to form a secular political party spanning different regions and ethnic identity.

"What I discovered during the campaign for the presidential elections is that people reject violence and

reject the regime in place, but also that the discourse today is no longer dominated by religion or ethnic identity," he said.

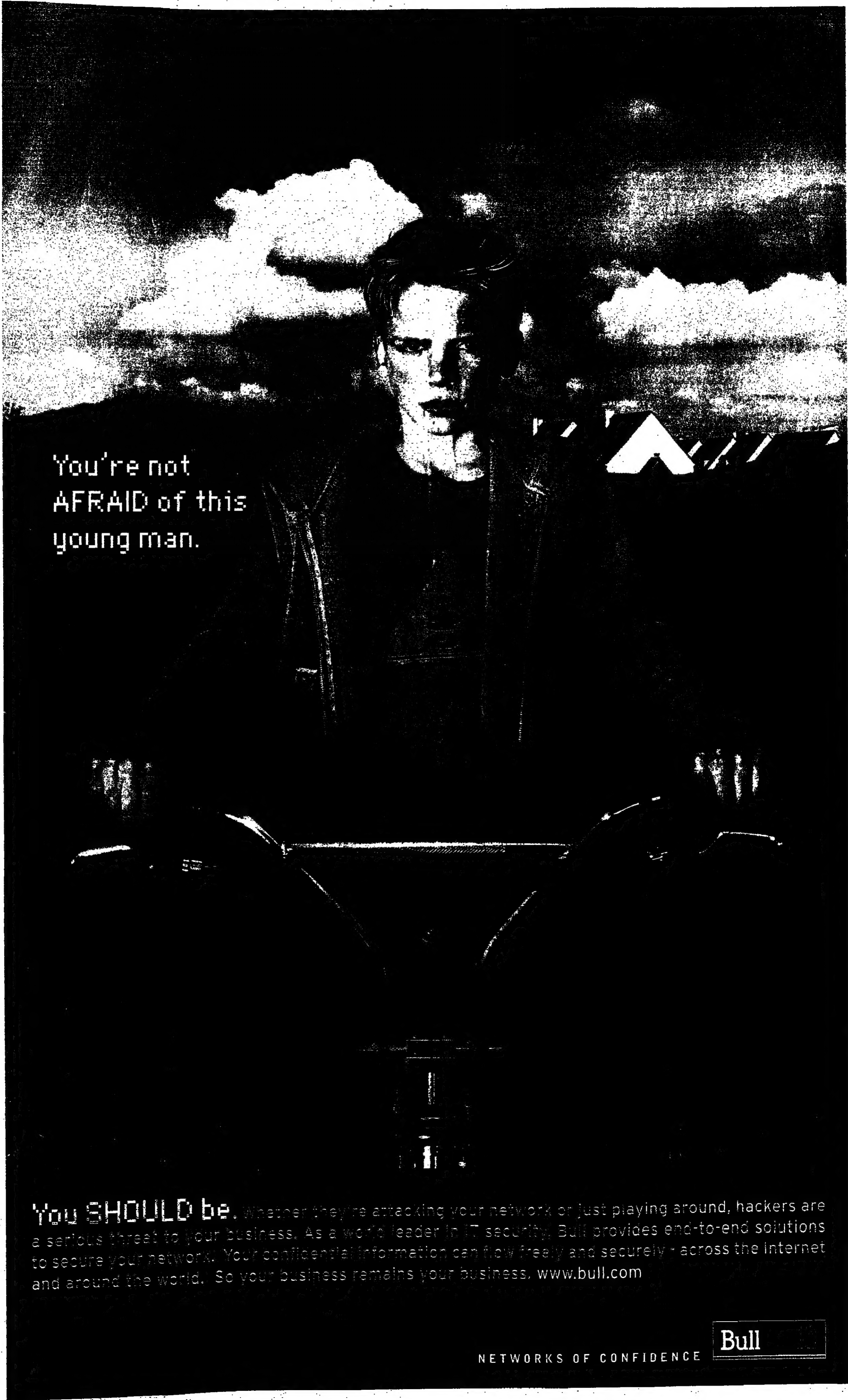
Since the election, however, Algeria's army-backed government has shown little sign of tolerance even towards peaceful protests. It banned street demonstrations against the election, and sent out a massive police force to block anyone who might ignore the ban.

Mr Hamrouche said he would not dismiss out of hand any initiative Mr Bouteflika might take to ease tensions. But he doubted that having been elected in a one-man show, boycotted by most of the population, Mr Bouteflika could make credible moves to return Algeria to peace - or that factions in the regime could agree on what he might propose.

Analysts expect Mr Bouteflika to make gestures towards the banned Islamic Salvation Front (FIS), which had been poised to win 1992 elections cancelled by the army. They say the new president might lift the house arrest of Abassi Madani, head of the FIS and perhaps move Ali Belhadj, the second in command, from jail to house arrest.

"If he (Bouteflika) takes initiatives towards Algerian society, all the better, but you will not have peace and reconciliation without changing the methods and the instruments by which Algeria is ruled," said Mr Hamrouche. "Without an accountable justice system, an accountable administration and a return to the rule of law you cannot have peace."





You're not  
AFRAID of this  
young man.

**You SHOULD be.** Whether they're attacking your network or just playing around, hackers are a serious threat to your business. As a world leader in IT security, Bull provides end-to-end solutions to secure your network. Your confidential information can flow freely and securely - across the Internet and around the world. So your business remains your business. [www.bull.com](http://www.bull.com)

**Bull**

NETWORKS OF CONFIDENCE

Brussels confirms delay  
for ban on 'hushkits'

And... to join Crewworld

Former Algeria  
premier to set  
up new party



## BRITAIN

INWARD INVESTMENT COMPANY'S PLAN TO OPEN FRENCH SEMI-CONDUCTOR FACTORY SPARKS OPPOSITION PARTY CLAIMS

## Siemens told to repay \$29m in site aid

FT Reporters and Agencies

Siemens has been told to repay £18m (\$29m) it received in aid to help build a factory in England which it later closed, Stephen Byers, chief industry minister, said in the House of Commons yesterday.

Mr Byers said Siemens had failed to meet conditions which were set when it received the money towards opening a semiconductor plant in 1996. The factory at Wallend in the north-east closed last year with the loss

of more than 1,000 jobs, following the collapse of semiconductor prices.

"I can inform the House that my department this morning invoiced Siemens in full for the £18m of regional selective assistance that was provided to them," Mr Byers said. "We shall recover that money and we shall use every penny of it to ensure additional inward investment... They failed to meet the conditions that we set."

Opposition MPs asked if the demand was sent to Siemens because the govern-

ment had learned of its planned expansion in France. They accused the government of misleading parliament over last year's closure of the English factory after it emerged that the company was planning a chip joint venture with IBM near Paris.

The Conservatives said the government's claim that Siemens' decision had been purely driven by the weak state of the global semiconductor market had been wrong. At the time, the government said it had been

assured by Siemens that the closure was not influenced by the level of sterling or Britain's decision not to join the euro in the first wave.

But John Redwood, the shadow industry secretary, said Siemens' French plans demonstrated that increased costs in the UK and the rise in the exchange rate was driving investment overseas. "Why is Siemens choosing a French plant rather than a British one? Obviously because it is cheaper."

Unions representing the 1,100 workers who lost their

jobs when the plant closed said they were seeking an urgent explanation from Siemens. Larry Brooke, the Manufacturing Science and Finance union's national secretary for the electronics industry, said the workers would feel cheated by Siemens' move. "I'm surprised they haven't taken this golden opportunity to utilise what is clearly a world class facility," he said.

Of Siemens decision to open a plant in Paris instead, Mr Byers said: "There are particular rea-

sons why Siemens have entered into the joint venture in relation to the Paris facility. I regret the fact that they were unable to secure a joint venture to develop microchips at the North Tyneside [England] plant."

Mr Byers was asked whether he had lodged a formal complaint with the European Commission. He said that, if there was a question of state aid being used in an inappropriate way, it would be something the EC would need to investigate.

## Food industry backtracks on use of modified ingredients

Opposition from Prince Charles and more humble consumers has helped to reverse a trend, says Deborah Hargreaves

Britain's leading supermarkets have reacted to a groundswell of public concern about genetically modified foods by saying they will stop using them in own-label products. Unilever and Nestlé UK, the large consumer foods groups, said this week they would remove GM ingredients from their British products.

Public opinion in Britain remains strongly sceptical about the benefits of genetic modification. Prince Charles has voiced his concerns and leading food writers have called for a boycott.

A collection of influential environmental groups including Greenpeace and Friends of the Earth is mounting a campaign for a five-year freeze on genetically altered crops.

"The minimum we want is a five-year freeze to give time for more research. But we should have a debate about whether we need these crops at all," says Peter Riley, biotech campaigner for Friends of the Earth, the pressure group.

The government has attacked "media hysteria" over the coverage of the debate. Newspapers dubbed

the new products "Frankenstein foods". But while ministers accept the public is genuinely worried, they refuse to ban GM foods.

Tony Blair, prime minister, says the argument should be conducted on "science, not scares". He told parliament this week that supermarkets had taken commercial decisions to remove GM ingredients that had nothing to do with safety.

Nestlé and Unilever agree that the use of biotechnology will guarantee safe products and significant benefits. But "at this point in time, without the confidence of all parties, this cannot be achieved," Nestlé says.

Recent surveys of public opinion about GM foods show that some 60 per cent of consumers oppose their use. A poll for the Consumers Association found that more than 90 per cent wanted GM ingredients to be clearly labelled.

British consumers began to mistrust government and scientists during the crisis over bovine spongiform encephalitis when regulators assured them it was safe to eat beef, but changed their

minds 10 years later when it was discovered BSE could transfer to humans.

Leading scientists are also concerned that the real message about GM foods has not been getting through.

In the debate over GM foods, "the industry has done a bad job, scientists have done a bad job and so has the government," says Professor Alan Malcolm, chief executive of the Institute of Biology. Prof Malcolm believes the government has not done enough to stress the strict controls in place for the production of GM organisms.

The government will publish new rules for the regulation of GM crop development next month. A committee has proposed new labelling requirements and will shortly finish a review of the scientific advice system.

Ministers say the first draft of a paper on genetically modified foods by Britain's chief medical officer and the main scientific advisor on the human health implications gives no cause for concern. "We know of no evidence that the existing licensed foods cause any concern. That is the advice



Women dig up genetically modified oilseed rape planted in southern England as an experimental test crop for Monsanto, the US biotechnology company. Some UK environmentalists have been arrested after raids on genetically modified crops. Nick Cobbing

we have been given," the minister responsible told MPs.

But environmentalists point to many concerns - including doubts about the way genes will behave when injected into plants and potential damage to the ecosystem. "We must also question whether these crops really do bring benefits for consumers or just profits for

the multinational companies that produce them," Mr Riley said.

Prof Malcolm believes there has been a lot of scare-mongering by the press about GM foods which has meant the real issues have been lost. "We've been eating genes in food for thousands of years and they don't get into cells in our bodies or into our sperm or

eggs. There are some legitimate environmental concerns and we should concentrate on them."

Scientists say the public needs to be educated more about the new technology and what it means for them. "It could be possible to do this, but if there are no products on the shelves, people won't be able to buy them anyway."

## PRO-EURO BREAKAWAY DEFECTORS BACK FORMER CHANCELLOR

## Ex-Conservative MEPs aim to oust party leader

By Robert Peston, Political Editor

A campaign to oust William Hague as leader of the Conservative Party back on sane ground. This may embarrass Mr Clarke, who is refusing to leave the Conservative party or offer public support to the new group.

However, its founders, John Stevens and Brendan Donnelly, who are both members of the European parliament, said that they should be neutral on party matters. They believe their approach will help their electoral prospects, since Mr Clarke won more votes from party members than Mr Hague in the battle for the Conservative party leadership in the summer of 1997.

Mr Hague eventually won the contest in the run-off for MEPs' votes. "Our opinion poll shows we could win 14 per cent of the vote in the European elections," said Mr Stevens. The same survey, carried out

by Mori, put the Conservative party on 17 per cent. Senior Conservatives acknowledge that Mr Hague will find it difficult to cling on as leader if his party does as badly as that in the European elections or in next week's municipal elections in England.

Mr Stevens and Mr Donnelly quit the party in January because of their despair at its hostile attitude to the euro. "We feel the party should be neutral on monetary union at the next election," Mr Stevens said.

They are running a full slate of candidates for the European parliament in England and Wales and Scotland. The Conservative party stands at about 12 per cent in the opinion polls on next week's first election for the Scottish parliament, James Baxton writes in Edinburgh.

This would yield only 14 of the 129 seats, all on the second vote under proportional representation.

By George Graham, Banking Editor

The government was urged yesterday to end doubts over whether its plans to reform financial regulation in the UK are compatible with the European Convention on Human Rights. A joint committee of both houses of parliament warned the government that it faced "embarrassment and the need for further legislation" if it did not resolve concerns that the tougher powers it wants to give the Financial Services Authority to deal with market abuse might be rejected by the courts.

The government has tried in its draft financial services and markets bill to give the FSA the power to impose civil penalties for abuses such as insider dealing. Civil charges would require a lower burden of proof and fewer safeguards for defendants than the current criminal offence, where successful prosecutions are rare.

But senior lawyers have argued that courts would view the procedures as criminal in nature under the ECHR and under old English legal traditions. In its report yesterday, the committee said the government must either recognise that these powers are criminal, and limit the FSA's role to that of prosecutor, or make the regime more clearly civil by limiting the punishments available. "The bill is now in the Treasury's court," said Lord Burns, the committee's chairman.

Opposition Conservative MPs threatened yesterday to hold up the bill if these concerns were not addressed. The government will need the opposition's consent to carry the bill over into the next parliamentary session.

It called for the posts of chief executive and chairman to be split. The chairman and executive directors should be subjected to confirmation hearings by parliament. "We recognise that the FSA will be one of the world's most powerful regulators and it is right that it should have an appropriate level of accountability," Lord Burns said.

Mr Deeny said that investors advised by Lloyd's dwindling number of members' agents got a better return than capacity picked by corporates.

The association said the figures, prepared independently, showed that Names with traditional bespoke portfolios had a return of 7.76 per cent of capacity in 1998 compared with 5.22 per cent for the quoted corporates.

Mr Deeny said: "For the forecast 1997 result, the contrast is even starker. Traditional bespoke Names are expected to make 3.32 per cent on average while the quoted corporates are forecast to make only 1.45 per cent."

The association said the contrast was more obvious when return on capital was taken as a yardstick - as it was by most investors. For

## Warning on move to reform regulation

By George Graham, Banking Editor

The government was urged yesterday to end doubts over whether its plans to reform financial regulation in the UK are compatible with the European Convention on Human Rights. A joint committee of both houses of parliament warned the government that it faced "embarrassment and the need for further legislation" if it did not resolve concerns that the tougher powers it wants to give the Financial Services Authority to deal with market abuse might be rejected by the courts.

The government has tried in its draft financial services and markets bill to give the FSA the power to impose civil penalties for abuses such as insider dealing. Civil charges would require a lower burden of proof and fewer safeguards for defendants than the current criminal offence, where successful prosecutions are rare.

But senior lawyers have argued that courts would view the procedures as criminal in nature under the ECHR and under old English legal traditions. In its report yesterday, the committee said the government must either recognise that these powers are criminal, and limit the FSA's role to that of prosecutor, or make the regime more clearly civil by limiting the punishments available. "The bill is now in the Treasury's court," said Lord Burns, the committee's chairman.

Opposition Conservative MPs threatened yesterday to hold up the bill if these concerns were not addressed. The government will need the opposition's consent to carry the bill over into the next parliamentary session.

It called for the posts of chief executive and chairman to be split. The chairman and executive directors should be subjected to confirmation hearings by parliament. "We recognise that the FSA will be one of the world's most powerful regulators and it is right that it should have an appropriate level of accountability," Lord Burns said.

Mr Deeny said that investors advised by Lloyd's dwindling number of members' agents got a better return than capacity picked by corporates.

The association said the figures, prepared independently, showed that Names with traditional bespoke portfolios had a return of 7.76 per cent of capacity in 1998 compared with 5.22 per cent for the quoted corporates.

Mr Deeny said: "For the forecast 1997 result, the contrast is even starker. Traditional bespoke Names are expected to make 3.32 per cent on average while the quoted corporates are forecast to make only 1.45 per cent."

The association said the contrast was more obvious when return on capital was taken as a yardstick - as it was by most investors. For

## NEWS DIGEST

## LONDON BOMB ATTACKS

## FBI co-operation leads to video image of suspect

Close co-operation between Scotland Yard and the FBI has led to the first apparent breakthrough in the investigation into bomb attacks in areas of London with high ethnic minority populations. Senior British anti-terrorist officers yesterday issued detailed video images of a white man in his early 20s they believe to be the prime suspect for a bomb which exploded in Brixton, south London, on April 17, injuring 39 people.

What UK police are describing as a "significant development" in their enquiries followed image separation, and enhancement of hundreds of hours of video footage captured on closed circuit television cameras near the scene of the explosion. It is understood that a key role was played in the analysis by high-technology equipment used in FBI laboratories in the US.

There was no official comment yesterday from the FBI but a senior British detective confirmed yesterday that some of the key images had "crossed the Atlantic" at least twice. According to Paul Wilkinson, professor of international relations at St Andrew's University in Scotland and a leading UK anti-terrorist expert, European police services increasingly seek assistance in the US because of its high level of investment in image-enhancing techniques.

Eastern Eye, one of Britain's biggest selling Asian newspapers, today strongly criticises the police for allegedly not reacting quickly enough to threats of a campaign of racist terrorism. Jimmy Burns, London

## ENERGY TAX WARNING

## Aluminium smelting 'at risk'

Britain's primary aluminium smelting industry, with sales of £300m (\$483m) a year, faces closure if the government goes ahead with its planned tax on energy use in industry, company executives warned yesterday. Tom Campbell, managing director of Anglesey Aluminium Metal, one of only two primary aluminium smelting businesses in the country, said his company would be unable to survive if the tax was introduced as presently proposed.

He said loss of primary smelting capacity in Britain could increase global emissions of carbon if orders were transferred to smelters in other countries with less rigorous environmental controls. Mr Paul Rata, assistant to the executive chairman of British Alcan, the other primary smelter operator, said the mathematics of the government's plans made it difficult to see how any primary aluminium producer could continue. Andrew Taylor, London

## VIRGIN CLAIM REJECTED

## British Airways slogan flies on

British Airways said yesterday the UK Advertising Standards Authority had rejected an attempt by Virgin Atlantic to prevent it using the slogan "the world's favourite airline". Martin George, BA's marketing director, said he had received a letter from the ASA confirming that Virgin's complaint had not been upheld.

The authority refused to comment, saying it would publish its decision in June. Virgin said it was awaiting a decision on a similar complaint it had made to the ASA's US counterpart, Michael Skapinker, London

**Union CAL** Forex, Futures & Options  
24 Hour Service - Internet Trading  
Free Real-Time Prices - Competitive Commissions  
Website: <http://www.unioncal.co.uk>  
e-mail: [piers.whitaker@unioncal.co.uk](mailto:piers.whitaker@unioncal.co.uk)

**FUTURES OPTIONS & FOREX** BERKELEY FUTURES LIMITED  
38 DOVER STREET, LONDON W1X 3BB  
TEL: 0171 638 1135 FAX: 0171 495 0622  
<http://www.bfd.co.uk>

**Futures & Options** \$5-\$22  
Online Trading  
Margined FOREX  
LINDA WALDOCK & COMPANY  
5125 Chiswick St., London EC1A 4EQ

**mini REUTERS** Free phone 0800 88 88 08  
www.futurespage.co.uk

**Index Direct** Low Stakes - Limited Risk  
FREEPHONE 0800-358-5599 [www.indexdirect.co.uk](http://www.indexdirect.co.uk)

**OFFSHORE COMPANIES**  
Established in 1975 OCSA has 20 offices world wide and 700 ready-made companies available  
For 100 page FREE colour brochure E-mail: [brochure@ocsaworld.com](mailto:brochure@ocsaworld.com) or contact:  
LONDON: RICHARD T. COOK, F.A. Tel: +44 181 488 8888 Fax: +44 181 488 8887  
LUXEMBOURG: EVELINE KAHN Tel: +352 264 286 Fax: +352 264 287  
HAMBURG: D. FRIEDRICH, U.S. Tel: +49 41 81 81 789 Fax: +49 41 81 81 789  
HONG KONG: BARRY G. DECKER, U.S. Tel: +852 2522 172 Fax: +852 2522 172  
USA: +852 2522 172 Fax: +852 2522 172  
Tel: +1 714 978 2342 Fax: +1 714 978 2342

**Argus LatAm Energy**  
Time-essentially intelligent brief on oil, gas and electricity in Latin America  
Free trial 145 171 359 3799 <http://www.petroleumargus.com>

**COMMERCIAL DATA INTERNATIONAL, INC.**  
Economic Profiles with Free Online News Updated Daily  
191 countries, \$39.95 US each, Regional, World Sets & Discount  
<http://www.comdatintl.com> Phone: (713) 355-6503

**Live Screen Trading**  
Equity Index FUTURES and OPTIONS Worldwide  
2-Second Fills Lowest Commissions  
Live Prices Live Charts  
Live Account Statements  
Internet with the S&P 500, DAX, STX, and SMI Matching Engines  
[www.interactivebrokers.com](http://www.interactivebrokers.com)

**ALL FUTURES, OPTIONS & STOCK OPTIONS**  
TRADE SHARES ON MARGIN  
LONG & SHORT - 0.25% COMMISSION  
Futures & Options  
Contact: James Allan  
Tel: 0171 337 3116  
Email: [james.allan@gnl.co.uk](mailto:james.allan@gnl.co.uk)  
Shares  
Contact: Philip Adler  
Tel: 0171 337 3116  
Email: [phil.adler@gnl.co.uk](mailto:phil.adler@gnl.co.uk)  
Website: [www.gnl.co.uk](http://www.gnl.co.uk)  
Member of the London Stock Exchange

**M** A COMMANDING PRESENCE  
ON GLOBAL FINANCIAL TRADING  
FLOORS NOW AVAILABLE  
TO PRIVATE INVESTORS  
ED & F MAN DIRECT  
CALL NOW FOR MORE INFORMATION  
0244 (0)171 285 3888  
E & F Man Direct is a subsidiary of E & F Man International Ltd which is a subsidiary of E & F Man Ltd.

World's first award-winning commission-free instant execution  
**FOREX**  
[www.forex-cmc.co.uk](http://www.forex-cmc.co.uk)  
on the net  
Free market info/free trial/visit site or call +44 1982 535550/24hrs

The FT GUIDE TO WORLD CURRENCIES, published in Monday's newspaper and covering over 200 currencies, is now available by dialling the following number from the handset of your fax machine: 0906 843 7001. Calls are charged at 60p per minute at all times. For service outside the UK please telephone +44 171 873 4378 for details on Cityline International.

**SHARES - TAX FREE**  
IG INDEX  
[www.igindex.co.uk](http://www.igindex.co.uk)  
0171 663 0896  
The low cost of shares is changed

INDEPENDENT FOREX ANALYSIS, FORECASTS AND RECOMMENDATIONS  
**£1 PER DAY**  
FOREXIA  
TEL: +44 181 948 8216 [www.forexia.com](http://www.forexia.com) FAX: +44 181 948 8400

From Data Broadcasting Corporation  
Real-time data on your PC  
equities • futures • options • derivatives • bonds • commodities  
ALL AMERICANS • FOREX • EUROPEANS • NEWS • CHARTS  
IN YOUR COUNTRY NOW  
70 Countries across Europe, the Middle East and Africa - from Ireland to Moscow, from Finland to Yemen  
**DBC**  
International  
[www.dbceuro.com](http://www.dbceuro.com) Tel: +44 171 793 3100

If you would like to advertise, or require any further information, please contact:  
Susie Talbot  
Tel: 0171-873-4928  
Fax: 0171-873-4296

مكتبة الجليل



*An open letter*

# to the Prime Minister to the Finance Minister to the Transport Minister of the Italian Government

*Sirs,*

*As you are well aware on July 28th, 1998 our companies complained with the European Commission over distortion of competition in the Italian coastal shipping trades, caused by subsidies the Italian State has granted and continues to grant to Tirrenia, the State-owned ferry group, and to its regional subsidiaries.*

*Furthermore, as you most certainly know, the European Commission Transport Directorate stated, on March 12th, 1999 that State subsidies are illegal for several reasons and requested clarification from the Italian authorities over regulations that determine how the subsidies are granted.*

*Finally, as you will also know the Antitrust Authority, the Italian Authority on fair competition, in its opinions of January 17th, 1996, October 3rd 1996 and July 9th 1998, has repeatedly confirmed, with notices to both the Government and the Parliament, the distortion of competition caused by the subsidies granted to Tirrenia.*

*Despite this criticism and the request for clarification from the European Commission Transportation Council, Tirrenia has prepared a business plan that, with utter disdain for said criticism and in complete contrast with European Union regulation on competition, liberalisation of the coastal trades and public subsidies, call for:*

*spending Lire 700 billion (Euros 361.51 million) to build new ships to be deployed on routes already served by private shipping companies; estimated future subsidies up to Lire 1.2 trillion (Euros 619.74 million) over the next four years.*

*Sirs,*

*not only does the fate of many private Italian shipping companies rest on your decisions regarding Tirrenias business plan, but also the hopes of liberalising coastal shipping trades as ordered by the European Union from January 1, 1999.*

MOBY LINES s.r.l.

ALILAURO S.p.A. - LINEE LAURO s.r.l.

TRAGHETTI POZZUOLI s.r.l. - ALILAURO GRUSON S.p.A.

ALICOST s.r.l. - NAVIGAZIONE LIBERA DEL GOLFO S.p.A.

SO.PRO.MAR. S.p.A. - GEST. NAVI. s.r.l.

FOREX  
on the net

EVERDAY

DO  
The world is changing  
and the way we live  
is changing too.  
We are now in a  
new era of  
globalisation.  
The world is  
becoming a  
village.  
We are now  
in a new era  
of globalisation.  
The world is  
becoming a  
village.





RICHARD DONKIN

## The right questions

Knowing your headhunter is the key to a successful search

Recent statistics issued by headhunting organisations suggest that executive search activity has been slowing down after a period of strong growth. From the point of view of the consumer it may not be a bad thing that some of the heat has been taken out of the market.

It was probably coincidence but the question of standards arose at two separate meetings last week with search consultants.

One of the consultants complained that many client companies were not discerning enough when engaging their headhunters. "They don't ask the right questions," he said.

"In fact some don't ask questions at all beyond the price."

One problem may be that too few clients know the types of questions they should be asking so I rang around some experienced hands in the search business to make a "hit list" of questions that could be useful to ask a headhunter when evaluating its services.

● Is the firm or the

individual headhunter a recognised specialist in their field with knowledge of a particular sector and do they have a reputation in a particular industry or marketplace? This can be important if potential candidates are to take their calls. Alternatively a generalist might be a better bet for a non-executive appointment.

● Can the firm provide

**Can the firm provide references from previous clients?**

detailed information on successful completed assignments for, say, the past 12 months? What is its success rate – the percentage of successful placements among all assignments?

● How long is the search going to take? As a guide it might be pertinent to ask the average time taken for a

search from previous assignments.

● What is the average length of stay of a chosen candidate? This may be a useful pointer to the quality of past recruits.

● Who is going to do the search? Will it be the smartly dressed partner fronting the deal, the consultant who comes along to the presentation as a sidekick, or the researcher hidden away in a basement? The use of researchers is not necessarily a bad thing but their role is sometimes disguised. The search firm should be able to spell out the role of any individual with a significant involvement in the search.

● How is the candidate short-list sourced and researched? How thorough will the firm be in checking the suitability of short-listed candidates?

● What is the firm's off-limits policy and how is it applied? One of the biggest irritants among the clients of headhunters is to find the firm they engaged to recruit people a year ago returning to poach people for another client. It might be useful to ask the firm if it will list its other clients. If they include

all your competitors you might wonder where the firm finds its candidates.

● Can the firm provide references from previous clients?

● What is the fee structure and in what circumstances might the client expect the firm to carry out a second search free of charge? Is it a failed search, for example, if a recruit ups and leaves after six months in the post without any provocation from the employer?

Nancy Garrison Jenn, a consultant on the headhunting business, includes some helpful tips in her book, *The Global 200 Executive Recruiters* (Jossey-Bass). The ownership structure, she points out, can point to the way that consultants work together. Mentions by candidates or recommendations by other customers are other good ways, she says, to get a sense of a firm's competence.

### Ideal employers

Universum, the Stockholm-based research company, which asks graduates across Europe to rank companies in terms of their popularity, has just released its findings for 1999.

In an ever-changing business environment there is remarkable consistency in the findings five years into the survey. McKinsey tops the list again with Andersen Consulting and Boston Consulting Group changing positions. More than 5,000 students at leading business

and engineering and science institutions in 18 European countries were surveyed for the report.

PricewaterhouseCoopers has moved up the list, reflecting the merged status of the former firms, and both Goldman Sachs and L'Oréal moved into the top 10. Some of the biggest leaps in popularity have been made by Nokia and KPMG.

The persistence of US consultancies at the top of the list perhaps reflects a view among graduates of these employers, with their "up or out" employment policies, as ideal staging posts to future careers.

Given the choice between three years' paid employment with McKinsey and three years completing a

university PhD, it seems many students would opt for the former if they have an eye on earnings potential.

But high earnings do not necessarily dominate graduate aspirations, according to the UK rankings (from a survey of 2,550 graduates) where the BBC tops the list, with the Foreign Office in fourth place. The reason that some employers come into the list seemingly from nowhere is that they were not originally put forward to graduates. Not one investment bank makes the UK top 20 favourite employers and McKinsey does not make the top 50 in the UK.

Universum tel: +46 8 5820 2725

richard.donkin@ft.com

### Ideal employers in Europe and the UK

1998 ranking	1999 ranking
1 (1) McKinsey & Company	1 (55) BBC
2 (2) Andersen Consulting	2 (56) Virgin Group
3 (3) Boston Consulting Group	3 (11) PricewaterhouseCoopers
4 (4) Coca-Cola International	4 (12) Foreign Office
5 (15) PricewaterhouseCoopers	5 (26) Andersen Consulting
6 (4) Procter & Gamble	6 (1) British Airways
7 (6) BMW	7 (20) Arthur Andersen
8 (11) Unilever	8 (18) Ernst & Young
9 (13) Goldman Sachs	9 (10) Sony
10 (16) L'Oréal	10 (21) KPMG
11 (20) Arthur Andersen	11 (9) Microsoft
12 (7) Nestlé	12 (4) Coca-Cola International
13 (9) Microsoft	13 (15) British Aerospace
14 (14) IBM	14 (6) Marks and Spencer
15 (8) Hewlett-Packard	15 (13) BMW
16 (22) Nokia	16 (3) IBM
17 (30) KPMG	17 (23) Daihatsu Trucks International
18 (12) Siemens	18 (7) The Body Company
19 (17) Daihatsu Trucks International	19 (12) Bosch
20 (18) JP Morgan	20 (8) Shell

Source: Universum

© 1999 Universum and its licensors

### WORKING BRIEFS

## Web site reveals the pitfalls of working on the internet

Hardly a day goes by without some information technology employer talking about staff shortages. There is no shortage of openings. Working in IT, we're told, is a great job, promising big money at an early age, with few entry barriers. So where's the downside?

Before applying for that job on the Monsterboard or any of the other internet-based recruitment sites it might be worth visiting another web site called NetSlaves ([www.dnsobey.com/netslaves](http://www.dnsobey.com/netslaves)) to see what kind of evidence might lie in wait for you.

The site highlights stories of employee exploitation among companies serving or based on the internet. Having worked six years for online businesses, with work days averaging 17 hours in one business, Bill Lassard has created the site with another hard-pressed colleague, Steve Baldwin, to warn potential recruits of the pitfalls in online working.

Their web pages include a multiple choice test to discover whether you are a NetSlave with options

ranging from A to D. Asked to describe your home, option D offers: "Don't remember but can describe the office."

The site reminds me of a cartoon in the latest issue of Private Eye, the satirical magazine. The internet user, sitting in front of his screen, taps into his search box the words: "A life".

### Self-help books

Two new books from the Industrial Society focus on related subjects. The first, *Harassment, Bullying and Violence at Work* (£16.99) by Angela Ismael with Bunni Alernou, includes case histories that some workers will find familiar. More importantly it gives advice on how to recognise and cope with bullying when it happens to you.

The second book, *Machiavelli or Motivator? How To Play Office Politics, and Win* by Jane Clarke (£10.99), recognises the subtlety of employee relationships in office life and somewhat controversially describes office politics as an "essential skill" in the workplace. It offers tips on how to deal with backstabbing, cliques and destructive gossip.

Industrial Society: +44 870 400 1000, [www.indsoc.co.uk](http://www.indsoc.co.uk)

### BANKING FINANCE & GENERAL APPOINTMENTS

Abbey National Treasury Services plc (ANTS) is recognised as one of the fastest growing UK financial institutions. Over the last nine years, ANTS has established a major presence in structured finance and is continuing to expand its asset portfolio. The Project Finance team, formed a year ago, has quickly become established as a lead arranger in the UK market. The team now seeks to expand their geographical coverage to now undertake a global mandate. The initial requirement is to recruit experienced project financiers with a proven deal track record outside of the UK. This will have been gained either within a major financial institution or an industry sponsor.

## Senior Project Finance Manager

London

Responsibilities will include:

- Marketing to both arranging banks and industry clients, you will develop profitable relationships and establish ANTS as a preferred source of funding.
- Meeting a specific growth target of the asset portfolio book.
- The strategic development of ANTS presence within the overseas project finance market.
- Ongoing relationship responsibility for existing clients.

The ideal candidate:

- Whilst being a sincere team player you will enjoy working in an autonomous role with the freedom to display true entrepreneurial flair.
- Experience of executing power transactions outside of the UK is essential. Additional exposure to the Petrochemicals or Telecoms sector would be an advantage. Ref 478288

These roles represent excellent opportunities for ambitious individuals to join a dynamic and forward thinking Financial Institution. Attractive compensation packages will be awarded to the successful applicants, reflecting the experience and capabilities required for these challenging roles. To support a healthy working environment, Abbey National operates a no smoking policy. Abbey National positively welcomes applications from every section of the community. Interested applicants should send a full curriculum vitae to Robin Keck or Richard Colgan at Michael Page City, 50 Cannon Street, London EC4N 6JJ. Telephone 0171 269 1872, fax 0171 329 2986. e-mail: [robinkeck@michaelpage.com](mailto:robinkeck@michaelpage.com)

Michael Page

CITY

[www.michaelpage.com](http://www.michaelpage.com)

London • New York • Paris • Amsterdam • Frankfurt • Milan • Madrid • Hong Kong • Singapore • Sydney

Abbey National

Treasury Services plc

## Project Finance Manager

£ Excellent

Responsibilities will include:

- Evaluate and assess project structures, build and develop cash flow valuation models and analyse sensitivities.
- Due diligence on existing and new transactions.
- Ability to present effectively to Credit Committees and other senior management.

The ideal candidate:

- Genuine team player and a strong desire to work in a team orientated, meritocratic environment.
- Excellent verbal and written communication and presentational skills. Ref 508047

## Senior Risk Management Professionals

As part of the General Electric Company in the US, GE Capital Services is one of the world's largest and most diversified financial services companies. With more than 60 years' experience behind us and a AAA credit rating, we enjoy what is undoubtedly one of the strongest capital positions worldwide.

Within GE Capital Services, Commercial Finance Europe provides small and middle market companies with innovative financing solutions including factoring, invoice discounting and commercial lending. More and more companies are turning to GE Capital for their financing needs. Because of this dynamic growth, we need more senior risk management professionals to join our French factoring organisation.

Director of Risk  
Paris, France

The risk organisation is split into two distinct groups: Debtor Risk and Client Risk, along with a Field Examination group supporting Account Managers in underwriting initial transactions and ongoing portfolio evaluation. In this high profile role, you will take full responsibility for leading each of these different areas.

The current portfolio includes 1,600 clients with aggregate exposure approaching \$1 billion. Ownership is a key word in GE Capital, and simply put, you will own this portfolio and be 100% responsible for its performance. In addition, being a key member of a Managing Director's team, you must be able to balance GE Capital's insatiable appetite for growth while at the same time tolerating little, if any losses. To be successful you should possess the following qualifications:

- Degree level education, with formal credit training; MBA preferred.
- 8-10 years' experience within risk management in a multinational financial organisation.
- Banking, factoring or asset based lending experience would be an advantage.
- Possess enormous energy to thrive in a fast paced changing environment and to be execution driven.
- A proven leader with the ability to lead and energise a team with various levels of experience and capabilities.
- Fluent in both French and English.

Director Portfolio and Account Management  
Paris, France

Reporting directly to the Director of Risk for France, you will be responsible for leading a team of up to 20 account managers handling approximately 500 clients with aggregate funds outstanding totalling over \$400MM. You will oversee every aspect of this portfolio including approving all accounts receivable purchases, developing monitoring plans both for key clients and overall portfolio analysis. In summary, you will own this piece of the portfolio and be 100% accountable for its performance. This position will also have extensive interaction with the France Credit Committee and Director Risk for Commercial Finance Europe. The ideal candidate should possess the following:

- Undergraduate Degree in Finance or Accounting; MBA preferred.
- At least 5 years' experience in a similar Risk or Finance position.
- Factoring or asset based lending experience would be a significant plus.
- Proven ability to balance customer needs while recognising first priority in safeguarding company assets.
- Strong leadership skills and the ability to be a real change agent.
- Comfortable in a fast paced dynamic environment.
- Fluent in both English and French.

Each of these roles comes with an excellent salary/benefits package, not to mention the chance to progress with this dynamic, global organisation. If you have what it takes to make a real impact, please send your CV stating your position of interest to: [Edie.Brady@EC.international](mailto:Edie.Brady@EC.international), Telephone: 0203 231 5151, 5152, 5153, 5154, 5155, 5156, 5157, 5158, 5159, 5160, 5161, 5162, 5163, 5164, 5165, 5166, 5167, 5168, 5169, 5170, 5171, 5172, 5173, 5174, 5175, 5176, 5177, 5178, 5179, 5180, 5181, 5182, 5183, 5184, 5185, 5186, 5187, 5188, 5189, 5190, 5191, 5192, 5193, 5194, 5195, 5196, 5197, 5198, 5199, 5200. Telephone: +44 (0) 203 231 551 2000.

An equal opportunity employer.

GE Capital  
Commercial Finance Europe

A subsidiary of General Electric Company, U.S.A., which is not affiliated with the English Company of a similar name.

## JOIN ONE OF 1999 TELECOMMUNICATIONS' SUCCESS STORIES ... !

Established in 1990, Destia Communications Inc. (formerly known as EconoPhone Inc.) is one of the fastest growing switch-based providers of long distance telecommunications service. Destia carrier's grade network and internally developed supporting software provide greater reliability, services and features. A strong emphasis on technological innovation and low cost structure enable Destia to offer extremely competitive pricing while maintaining outstanding quality.

Destia offices can be found in the USA, United Kingdom, Belgium, The Netherlands, Switzerland, France, Greece and Germany. As the European markets continue to open free trade in the telecommunications industry, Destia is fast becoming a major player in strategic world markets. In order to sustain its European growth, the Company is now seeking the following senior roles:

General Manager, Germany

DM200,000 - DM220,000 + Bonus

We are seeking a self-motivated and commercially strong individual with a proven track record of revenue-generating achievements. Accompanied to a broad range of challenges, the successful candidate will have also driven organisational change programmes.

WBS Director, Europe

£55,000-£65,000 + Bonus

Extensive experience in IS Project Management, with proven understanding of Web technologies, client server and distributed systems. Ideally of graduate caliber, the incumbent will also have gained international exposure.

Customer Service Director, UK

£50,000 + Bonus

This position would suit a quality conscious, service-driven and technologically minded CS Executive (ASPECT, CTI and IVR) with substantial Call Centre experience and the ability to anticipate, develop and implement support systems for future customer requirements.

Marketing Director, UK

£50,000 + Bonus

The incumbent is expected to manage and co-ordinate all the activities, processes and strategies required to market telecommunications and telephony products primarily to residential customers. The ideal candidate will hold a marketing qualification, come from a reputable FMCG environment and demonstrate familiarity with retention schemes.

Corporate Sales Director, UK

c. £60,000 (OTE c. £100,000)

Highly motivated graduate, currently holding a senior sales position within the SME or Corporate telecommunications industry, is sought in order to manage the internal customer base, indirect access and other business sales channels, as well as to increase revenue from corporate sales. The incumbent will possess an enviable sales track record and the (lateral) thinking required to capitalise on new opportunities.

Director of European Engineering, UK

£60,000-£75,000 + Bonus

Responsible for the day-to-day management of the whole of the Engineering function, including network engineering for switching, transmission, and miscellaneous equipment, and the development and maintenance of network documentation.

All the above roles come with a comprehensive package of benefits, car (allowance) and share options scheme.

Priority will be given to candidates whose working experience includes start-ups, 5 to 10 years' management experience, an appreciation of (integrated) telecommunications on an international scale, a demonstrable commercial awareness and quality oriented attitude. In other words, individuals who have become "leaders" in their respective fields.

Apply in confidence to Giuseppe Sobrero, European HR Manager,

Destia Network Services Ltd., 2 Exchange Tower,

Harbour Exchange Square, London E14 9BB.

Meanwhile, feel free to visit us at [www.destia.com](http://www.destia.com).

Destia  
COMMUNICATIONS

Man  
Financ

Credit A

هكناك الامر



## Global Investment Bank EUROPEAN BANKS & INSURANCE SECTOR ANALYSIS

SIX FIGURE PACKAGE - LONDON BASED

Our client is a global market leader in investment banking and securities, with a reputation for delivering high-value investment ideas to major financial institutions and companies around the world. The Bank's global equity sector research teams are top ranked and amongst the leaders in their field.

## THE POSITIONS

- Senior and high-profile roles within Banks or Insurance teams. Use in-depth market sector knowledge to provide leading-edge strategic advice and stock recommendations to top investment institutions.
- Create innovative analysis and recommendations on sector value drivers and competitive positioning. Considerable involvement in corporate finance.

- Further deepen the range of existing valuation and analysis criteria to include issues such as shareholder value, EVA analysis and competitive advantage.

## QUALIFICATIONS

- Record of success with leading consultancy or in-house corporate development/planning/finance role. In-depth knowledge of Banks or Insurance sectors.
- Experience of latest valuation and modelling techniques.
- Graduate, ideally with further business or professional qualification. Exceptional communication skills. Ability to work under pressure and meet deadlines.

SAINTY HIRD  
&  
PARTNERS

Please send a full CV and current salary details, quoting ref: 990408, to SHP Associates, Aldermoor House, 18-15 Queen Street, London EC4N 1TJ. Tel: 0171 815 8888. Fax: 0171 815 8800. E-mail: [emma.sherlock@snpa.co.uk](mailto:emma.sherlock@snpa.co.uk). Internet: <http://www.snpa.co.uk>

## European Investment Bank EQUITY CAPITAL MARKETS

EXCELLENT PACKAGE / LONDON

Our client is a leading European Investment Banking Group, with a pre-eminent position in Equity Capital Markets in Emerging Europe. An outstanding professional is now sought to fulfil a pivotal role in the Equity Capital Markets team.

## THE POSITION

- Make an immediate impact on all aspects of ECM transactions from origination to deal execution.
- Work closely with colleagues in a team driven environment and establish strong working relationships and credibility with local offices throughout Emerging Europe.
- Become a key team member managing the execution

of complex transactions and negotiations with clients, regulators, authorities and other professionals.

## QUALIFICATIONS

- Bright graduate with 3-5 years' relevant professional experience in Equity Capital Markets, Transaction Management or a legal advisory role. Outstanding candidates in corporate finance or related areas will also be considered.
- Enthusiastic team player with strong technical and analytical skills. Ability to build relationships with clients and professionals at all levels.
- Confident, self-motivated with a sound understanding of the complexities of executing transactions in different cultural and business environments.

SAINTY HIRD  
&  
PARTNERS

Please send a full CV and current salary details, quoting ref: 990407, to Elizabeth Williamson, SHP Associates, Aldermoor House, 18-15 Queen Street, London EC4N 1TJ. Tel: 0171 815 8888. Fax: 0171 815 8800. E-mail: [elaine.newman@snpa.co.uk](mailto:elaine.newman@snpa.co.uk). Internet: <http://www.snpa.co.uk>

We help those who help the traveller.

How far do you want to go?

The following position, based in our Madrid headquarters, is now available:

## Manager Planning and Control

Ref: 10200-2-94

The Role: Reporting to the Group Controller, you will prepare and analyse the main components of the Annual Group Budget, analysing the evolution of the budget in comparison with previous years and against actual results. You will also prepare reports for management, analyse actual trends and prepare forecasts, comparing and analysing these versus the budget.

The Requirements: You will need a degree in Business or Economics, preferably with an MBA. You should also have between six and eight years experience in the Planning and Control department of a major multinational company, or in the Financial Consultancy division of one of the Top Five accounting firms. Fluency in English is also essential, as are strong PC skills including spreadsheets and Power-Point type presentations.

We offer attractive remuneration, an outstanding benefits package and the opportunity to work in a stimulating multicultural environment.

Please send your CV quoting Ref: 10200-2-94 along with a recent photograph and salary details to: Amadeus Human Resources Department, Apdo. de Correos 20.172-E, 28027 Madrid, Spain. E-mail: [hrrmad@amadeus.net](mailto:hrrmad@amadeus.net)

(If you send your CV by Email, please attach it as a MS Word file, and ensure to quote reference number as 'subject'.)

Web address:  
<http://www.global.amadeus.net>



## Managing Director Financial Public Relations

City

Six Figure Package

An exciting opportunity to play a key role in the further development of this independent, well-established consultancy. Focusing on financial and corporate communications, the firm has an impressive client list and is expanding rapidly through organic growth and acquisition.

## The Position:

- Reporting to the Chief Executive, lead and motivate a team of eight experienced executives.
- Play a senior role in servicing and developing key client accounts across a broad spectrum of industry sectors.
- As a member of the operating board, contribute fully to the development and implementation of an ambitious strategy for the future growth of the firm.
- Using own established City profile, help to attract new clients and staff of the highest quality.

## The Candidates:

- Currently working at Board level in a blue-chip financial communications consultancy, or in a City advisory role.
- Accustomed to advising clients at the most senior level, with first class interpersonal and communications skills.
- Entrepreneurial, with high levels of self-motivation and drive, and with an international perspective.
- Experienced in managing and motivating teams, and handling sizeable budgets.

Please write in confidence, with full career and current salary details, quoting reference VMP/163/FT

Tel: 0171 499 8811 Fax: 0171 499 6725  
e-mail: [MailandL@odgers.com](mailto:MailandL@odgers.com)



7 Cannon Street,  
London WC1N 7PL

Attractive Compensation  
and Benefits

PRIVATE INVESTMENT GROUP

Hong Kong  
Based/Flexible

## Chief Investment Officer

Our client is a private investment group based in Hong Kong with substantial and diversified interests throughout the world. Investments are made primarily in external funds through the group's own "fund of funds" structures, and include hedge funds, private equity funds, traditional equities, fixed income and direct investments. The primary goal of the group is to support and promote the wealth management and other interests of the family ownership.

## THE ROLE

- A key member of the group's Investment Committee comprising the Chairman, CO and CFO. Directly responsible for the group's investment strategies and asset allocation.
- Reporting directly to the Chairman, responsible for the continuing development of internal processes and people to meet the group's investment objectives primarily through the use of external portfolio managers.
- Maintenance of access and credibility within the international investment community to further investment objectives.

## THE QUALIFICATIONS

- A seasoned professional who is well versed with the financial services industry and has a strong understanding of the risk management aspects of portfolio management; direct experience in asset allocation and portfolio management will be a plus.
- An extensive understanding of international financial markets, coupled with experience in the Asian region.
- Practical intelligence, a hands-on approach, professional commitment, flexibility and a positive attitude are important attributes.

Tel: (852) 2521 8373  
Fax: (852) 2810 5246  
Email: [gunsthor@openstar.com](mailto:gunsthor@openstar.com)

Selector Pacific  
Spencer Stuart

Please reply enclosing full details to:  
Selector Pacific, Ref. 70079,  
Spencer Stuart & Associates  
17/F, Bank of East Asia Building  
10 Des Voeux Road, Central, Hong Kong

## Credit Analyst

Edinburgh

GE Capital Woodchester (GECW) is part of GE Capital, one of the largest and most diversified financial services companies in the world. GECW itself represents a significant new force in motor finance, working harder to provide our customers with the best deals by offering choice, innovation and quality service, and through the winning attitude of our people. The above position is based at our Edinburgh Service Centre, which benefits from industry leading information technology.

Joining the team, you will be instrumental in supporting the Commercial Lending operation. Your excellent commercial decision making ability will be a crucial element in account analysis and the underwriting of commercial proposals. Assessing new credit facilities and analysing credit facility performance, you will also report credit policy on a weekly and monthly basis.

You will have at least 3 to 4 years' experience in reviewing financial accounts, as well as strong interpersonal & written skills. GECW is a company that recognises and rewards its people and as you would expect of such a company, you will receive a highly competitive salary and benefits package.

If you are ready to capitalise on your career then please send your current CV, stating salary details, to: Sharon Findlay, HR Manager, GE Capital Woodchester, Apex 5, 98 Haymarket Terrace, Edinburgh EH12 5GE. Alternatively apply on-line via <http://www.monster.co.uk> Closing date: Wednesday 15th May 1999.

\* Trademark of General Electric Company, U.S.A., which is not connected with the English Company of a similar name.



GE Capital  
Woodchester



## MANAGING DIRECTOR - MINING CONSULTANCY

Excellent remuneration, incentivisation and benefits

RJB Mining PLC, the UK's leading coal producer, is seeking a Managing Director to head up a new Mining Consultancy Division within the Company. RJB Mining already undertakes limited consultancy work internationally, and through the new division, is seeking to exploit the commercial opportunities offered by this growing sector.

We are looking for a good communicator with strong managerial and leadership skills, highly self motivated and eager to meet the challenges of a key dynamic role in a fast moving and forward thinking business. Reporting directly to the Chief Executive Officer, the Managing Director of Mining Consultancy will be responsible for establishing and developing the consultancy around the world, utilising the facilities and skill-base available within the business.

Based at the Company's head office in Harworth, South Yorkshire, the consultancy division will be able to draw on the skills of RJB Mining's 8,300 staff, to provide advice and training both on site and at the Company's own facilities in the Midlands and northern England.

Applicants will preferably already be operating in a senior position with a mining consultancy. An engineer (or similarly qualified), they will have extensive experience and the ability to work effectively at all levels within the industry.

RJB Mining operates 15 deep mine collieries and a similar number of opencast sites in the UK, and has mining interests in Australia. In 1994 the Company acquired the English operations of British Coal and established itself as the key supplier of coal to the UK power generation business.

Candidates should write in total confidence, with full CV indicating detailed experience to:  
Richard Budge, Chief Executive, RJB Mining PLC, Harworth Park, Blyth Road,  
Nr. Harworth, Doncaster DN11 8DS.



# Global US Investment Bank

European Capital Markets  
& Investment Banking

London

£ Attractive

This global US Investment Bank specialises in providing innovative advisory services and financing arrangements for their clients. The bank offers a wide range of financial services to corporations, governments and financial institutions through a global network operating in over 180 countries.

## Capital Markets

As one of the leading global providers of Debt Capital Markets products, the bank is renowned for providing creative thinking combined with a reputation of the highest order. The division has a focus on the origination of Eurobonds, Structured Transactions and Private Placements.

As a result of increased demand for their expertise, the division is seeking to recruit experienced Associates to provide specific product support in identifying, negotiating and structuring new business issues. Associates will ideally have a strong academic background, 3-4 years' experience client exposure and the necessary energy to succeed in this challenging environment. An MBA and a second European language would be advantageous for the role.

The division is also seeking to recruit a number of Analysts to assist the product teams in assessing new issue propositions, ongoing monitoring of existing business, financial modelling and research. Analysts will ideally have a strong academic background, 1-2 years' experience on a bank graduate training program, including Capital Markets product exposure.

These positions offer excellent opportunities for individuals with the required skills to join a market leader in Capital Markets and Investment Banking. Successful candidates will receive an attractive remuneration package, which will entirely reflect experience.

Interested individuals should contact Robin Keck or Tim Smith at Michael Page City on 0171 269 1872 for an initial discussion. Alternatively, please send a detailed CV to Michael Page City, 50 Cannon Street, London EC4N 6JJ, fax 0171 329 2986 quoting reference 507309, e-mail: robinkeck@michaelpage.com

Michael Page  
CITY

www.michaelpage.com

London • New York • Paris • Amsterdam • Frankfurt • Milan • Madrid • Hong Kong • Singapore • Sydney

Shell Capital

## ASSET SECURITISATION

LONDON & HOUSTON

### Banking packages

Shell Capital is the new global financial products business of the Royal Dutch/Shell Group of companies. Our mission is to become the leading provider of financial products in the energy, petroleum and petrochemicals industries. We are originating and structuring transactions in several product areas, including business-to-business and consumer cards, real estate, small business loans and reserve-backed financing. We seek professionals with significant experience in securitising card receivables and other assets using bank conduits and public market transactions.

### The Positions

- Liaise with Business Developers in development of new products and origination.
- Lead transaction teams working with clients and financial institutions.
- Structure the various risks and features of the transaction to ensure that the economics, legal, tax and accounting aspects are sound and advise on suitable operational and financial counterparties.
- Tailor products to ensure efficient sell-down.

### The Requirements

- Proven track record with 5+ years of experience in closing complex transactions, involving the structuring of transactions and the distribution of funding into different markets.
- Network of contacts in the financial world.
- Clear understanding of the risks and rewards involved in taking on a residual or subordinated position in a transaction.
- Ability to work in a non-hierarchical, rapid growth environment.

For European applicants, please send your CV with current salary details to Sally Rowley-Williams, K/F Selection, 252 Regent Street, London W1R 6HL. Alternatively send by fax on 0171-312 3380 or by e-mail to kfs-london@kornferry.com

For US applications, please contact James Winfrey, K/F Selection, 1100 Louisiana, Suite 2850, Houston, Texas 77002. Or by fax on 713 651 0848 or by e-mail to winfrey@kornferry.com Please quote ref: 6638/04. Internet Home Page: <http://www.kfselection.com>

K/F SELECTION

A DIVISION OF KORN/FERRY INTERNATIONAL

## HEAD OF BOND CREDIT RESEARCH

Frankfurt

£Competitive Package

Our client, is a highly successful asset manager and part of a leading European investment banking group. Assets under management encompass all of the world's markets and have continued to perform, reflecting the strength and style of the investment strategy.

The Asset Management Research Team is a truly global facility providing product and sector specific advice to fund managers and external clients. The strength of the organisation is built upon the expertise of its own high calibre team of analysts and draws upon the specialist knowledge of researchers in its network throughout the world.

This is an excellent opportunity to join a dynamic, meritocratic organisation and a superb opportunity for career growth.

### The Position

- You will be responsible for corporate credit research and manage internal and external information sources to form a coherent credit policy for the whole spectrum of credit risk on a European and global basis.
- You will be responsible for building a first-class team.

### The Candidate

- You will have at least 3 years' bond credit experience and may be an analyst who is looking to head up a team.
- You must have an outstanding academic record, ideally including an MBA.
- Previous managerial experience is not a pre-requisite.

Please send CV or contact Tabassum Ahmad at Rizwan Nash, 21 Ellis Street, London SW1X 9AL. Tel: 0171 730 4211 Fax: 0171 730 0611 Email: [response-rizwan.nash@btinternet.com](mailto:response-rizwan.nash@btinternet.com)



Rizwan Nash

## Major Gulf Financial Institution

Newly created high profile roles to lead change and development in two key areas

### Middle East

This leading Middle Eastern bank has a significant position in both consumer and corporate banking. The bank has assets of some US\$7bn and a network of branches. With a strong reputation based on the excellence of its service to customers, the bank is well positioned for continued growth and development both domestically and internationally. The following roles have been created to play a key part in the further development of the bank's business:

### Deputy General Manager - Consumer

Working closely with the General Manager, Consumer Banking, the appointed candidate will manage and develop some 300 staff. The primary responsibilities will be to lead, control and direct all aspects of consumer banking activities to achieve agreed targets and performance standards, and make a significant contribution to the bank's bottom line. Key tasks will include maintaining excellent customer service throughout the branch network; developing and implementing products and services that meet customer needs; and ensuring that the bank maintains its lead in a highly competitive market place. Ref: 99319L

For both roles previous senior management experience in the respective functions is a prerequisite. This will have been gained in a well respected international bank. Middle Eastern experience would be an advantage. Candidates should have a strong track record and proven management skills; the ability to develop and implement effective strategies; and the ability to manage change and improve performance. There will be a competitive remuneration package, including the full range of expatriate benefits. Please send a full CV in confidence to GKR at the address below, quoting the appropriate reference number on both letter and envelope, and including details of current remuneration.



Queensberry House, 3 Old Burlington Street, London W1X 1LA. Tel: 0171 534 0079. Fax: 0171 534 0005. E-mail: [llbull@gkrgroup.com](mailto:llbull@gkrgroup.com)

### Attractive Expatriate Packages

### Deputy General Manager - Corporate

Working closely with the General Manager, Corporate Banking, the appointed candidate will lead and motivate a team of 70 corporate bankers providing a range of corporate banking services, primarily in respect of trade, credit and treasury products. The principal aims will be to achieve agreed targets and performance standards, and make a major contribution to the bank's profitability. This will include establishing a successful private banking business. Management of the team through significant change and development will be key in a competitive market place. The job holder will be dynamic and innovative in management style and strategic thinking. Ref: 99318L

## CHIEF FINANCIAL OFFICER

International Real Estate company requires for its Paris offices an experienced, young and dynamic Chief Financial Executive.

### Our requirements are:

- Experience in a similar environment, not necessarily in France.
- Perfectly bilingual.
- Computer literate including substantial experience in our information technology environment.
- Workaholic.
- Nationality unimportant
- Impeccable references.
- Sound educational level.
- Team player.

We offer an outstanding career opportunity in a highly motivated environment. Excellent package included.

Handwritten replies, please c/o:  
DOUBLE-DEUX, 10, rue Royale - 75008 PARIS

## VICE PRESIDENTS SECTOR FOCUSED STRATEGIC ADVISORY/M&A

### LONDON BASED

### 2 EXCELLENT PACKAGES

Rabobank International is a major division of Rabobank Nederland, one of the world's leading international banks with assets in excess of NLG390 billion and a AAA credit rating.

As a result of the continuing development of their international Strategic Advisory/M&A business, Rabobank has a requirement for a number of experienced M&A professionals at Vice President level. The Strategic Advisory/M&A team, as part of a global M&A network, operates as a research driven, client focused, industry targeted advisory group and concentrates on the Bank's three global focus sectors: Food & Beverages, Transport & Logistics and Healthcare.

Vice Presidents are expected to run project teams, with a high degree of independence, and to have close involvement in the origination of transactions; hence those with experience within the Transport & Logistics or Food & Beverages sectors will be of special interest. The role involves working, from a London base, as part of the integrated pan-European Strategic Advisory/M&A team which is located across Amsterdam, Barcelona, Budapest, Frankfurt, London, Madrid, Paris and Warsaw.

### CANDIDATE PROFILE

- Degree plus additional qualifications (i.e. ACA/MBA) or equivalent.
- Minimum of 8 years' relevant experience of transaction execution either within investment banking, industry or management consultancy.
- Experience of crossborder M&A and corporate advisory within Europe.
- Additional European language skills preferable.
- Strong technical/modelling skills.
- Ability to manage "hands-on" transactions with a great deal of independence.
- Ability to participate in high-level client presentations and on-going client contact.

Interested candidates should send their resumes in strict confidence, including current remuneration, to Sam Dezhurev at: The Berwick Group, 51 Lincoln's Inn Fields, London WC2A 3LZ. Tel: 0171 404 6446 Fax: 0171 404 6062/email [sam.dezhurev@berwickgrp.com](mailto:sam.dezhurev@berwickgrp.com)

THE BERWICK GROUP



## Chief Information Officer

Korea Exchange Bank, Korea's leading Bank in the fields of international finance and foreign exchange business, is now striving to establish itself as a Global Universal Bank, representing the Korean financial industry. The Bank is looking for a Chief Information Officer, who is well versed in financial business and information technology.

- Responsibility
  - Setting a vision for the Bank's information & systems operation, establishing IT management strategies, and expanding the Bank's business base through active utilization of the information & systems infrastructure
  - Assessing the trend of IT development and its effects on the management base, presenting the timing and manner for the utilization of IT infrastructure
  - Providing advisory service on information & technology to the Information & Systems Unit and the management

### Professional Qualification

- Experience of no less than ten years as a manager in one of the leading financial institution
- No less than five years in a financial institution's IT related project
- No less than three years in electronic banking business
- No less than one year in a data warehouse or knowledge management project

### Personal Qualification

- Master's degree or higher in the information & systems field (including MBA)
- Insight on the banking industry and deep understanding of the IT sector
- Ability to manage IT business and project promotion capacity
- Person having the ability as an IT evangelist and experiences preferred

If you feel that you have these qualities, personality and drive, then send your Curriculum Vitae with salary requirements to M.S.Kim by fax 822 775-9812.

KOREA EXCHANGE BANK

181-2 Gaeulcho, Chung-Gu, C.P.O. Box 2924, Seoul 100-788, Korea  
Fax: 822-775-9812 Tel: 822-729-0086



Recruitment

Net.Works

The FT IT Recruitment section is also available all week on [www.ft.com](http://www.ft.com)

مكتبة الامم



مكتبة الامم المتحدة

**Take a share in managing other people's shares.**

Joining Matrox (26,000 people including 500 in France - partner to the largest world wide groups), means working at the forefront of a forward looking company on large scale operations. We are seeking for one of the largest industrial and financial groups and a major international player:

**Customer Advisers**

Baccalaureate + 4 years further education or relevant experience

After training in the Group ethos, you will be responsible for explaining employee shareholding schemes to its collaborators in various countries, mainly European.

You will be educated to Baccalaureate level + 4 years further education or you will have banking experience. You will be bilingual in French/English or Spanish, Italian, German, Portuguese, Flemish, Walloon, Arabic...

Your relational qualities, your sense of duty and counselling skills will guarantee the quality of your ability to communicate and your commitment.

These positions, which need to be filled quickly, offer a top level professional environment.

For this position, please call +33 1 53 60 60 36 or apply in writing quoting ref. CCFT to Matrox - Recrutement Department - 153, avenue d'Italie - 75013 Paris - France. E-mail: [recrut-france@comvergys.com](mailto:recrut-france@comvergys.com) - web: [matrox.fr](http://matrox.fr)

**REGIONAL MANAGER EUROPE**

Well established USA based Int'l Financial Services Co. is seeking Regional Manager to work out of London or Paris.

Responsibilities include: operational management of company offices in Europe, recruit & direct agents to company employees, regulatory compliance maintenance. Develop & implement budget & marketing strategies & long term plans. Maintain & secure banking relationships. Full charge of financial management.

Ideal candidate will have min. 5-7 yrs. business, sales or marketing exp. Understanding of currency moves a plus. Should have advanced University degree in business admin., marketing or finance. Full command of English req'd. & knowledge of French preferred. Experience with regulatory matters helpful. Strong communication & data processing skills important.

FAK resume and salary history in strict confidence. Directly to U.S.A. 212-693-4782

**Buy Side / Sell Side Opportunities**

Positions with Hedge Funds, & Global Investment Banks, Equities, Fixed Income, Derivatives, Commodities, Currencies, M&A.

[www.financejobsdirect.co.uk](http://www.financejobsdirect.co.uk)

to upgrade your compensation package.

**MANAGEMENT TRAINEE**

High profile and dynamic program company seeks an individual, aged 23-35, to be trained by Senior Manager with a view to replace him/her. Must have a degree in a relevant field and be looking for a career with responsibility and earnings commensurate with the position.

Check: MARTIN TOWERSPURY 0171 736 7848

**Private Banker**

38, Geneva based

seeks employment with either family office or small international financial company.

10 years international experience in various roles with AAA rated banks.

MBA in Finance

Fluent in English

French, German, Italian, Spanish

Contact by fax: +41 79 0 801 72 16

**sib**

SWISS INTERNATIONAL BANKING SCHOOL

**FINANCIAL SERVICES PRACTITIONERS AND CONSULTANTS**

Immediate Full-time Teaching and Consulting Opportunities at our new School in Basel, Switzerland

We are looking to appoint five outstanding financial practitioners/consultants to become lecturers/consultants to our School.

Ideally, candidates meet the following requirements:

- MBA in finance, accounting, law or related fields
- 5 years of financial or investment experience
- 3 years of management training or teaching experience
- Innovative attitude with desire to combine teaching and consulting
- Team spirit
- Excellent English writing, presentation and oral skills
- Be able to re-locate to beautiful Basel

This is a rare opportunity to join the establishment of a new international banking school, specializing in providing high-level education and skill-based career paths to financial practitioners. The school will provide BSc, Masters Programmes, Sc. Executive Development, Research and Consulting programmes.

Successful applicants will have the power to shape the school's future and be given the option to join a dynamic consulting group.

SIB is looking for lecturers/consultants who have specialist knowledge and experience in:

1. **IT/Software/Operations:** IT solutions and technical problems in international finance service organizations, investment banks, multi-national corporations.
2. **Finance Theory and Finance Product Development:** Exchange traded instruments, derivatives, valuation and pricing models, hedging and financial modeling.
3. **Finance Law and Documentation:** Financing agreements, OTC derivatives instruments, structured products, securities and international negotiations; most likely to be a lawyer with not less than 5 years experience in the financial services.
4. **International Management and Strategy:** Economic, industrial and corporate finance analysis, M&A, IPOs, organisational development, organisational design and change management.
5. **Investment Management:** Insurance, pension funds, asset allocation, global custody and portfolio analysis.

Should you be interested, please contact Joe Tanega, Dean, and send application with CV to SIB, P.O. Box, 4002 Basel, Switzerland, Tel. 41-61-417 2000. Fax 41-61-417 2001. E-mail: [sib@ibm.ch](mailto:sib@ibm.ch) or London at Tel. 44-171-955 8300, ext 8027, or email to [kate.tanega@zwh.ch](mailto:kate.tanega@zwh.ch)

**UNIVERSITY OF CAMBRIDGE**

Careers Service and the Judge Institute of Management Studies

**MBA and Generalist Careers Adviser**

Careers Service and the Judge Institute of Management Studies are looking for someone with a strong interest in students and their futures to work partly with MBA students and partly with other students and graduates of the University. You will join the busy team of the Careers Service (10 advisers and 24 other staff) serving Cambridge students and their employers, but you will also have a base within the Judge Institute.

A degree and substantial experience of work is needed. For the MBA work you must have an up-to-date knowledge of private sector business. Essential personal qualities include enthusiasm, curiosity, objectivity, stamina, and the ability to switch tasks frequently. Above all you need to be able to work under pressure, both independently and in a group. Professional training courses will be available.

Appointment will initially be for three years. Salary will be up to £21,010 a year, according to age and experience.

Because this is an unusual job it is essential before applying to obtain further details by telephoning the Careers Service (01223 332288). The closing date is 14 May.

The University follows an equal opportunities policy.

## HIGH-YIELD TELECOMS ANALYST

### BASED IN LONDON

Our client is a highly ranked European investment banking institution with current ratings of Moody's Aa1, Standard & Poor's AA+ and IBCA AAA. They are reinforcing their European High-Yield capability by increasing team size and by focusing considerable resources on certain sectors.

As a result, they are looking to recruit a sell-side telecoms analyst, to work alongside the Head of High-Yield Research. Candidates must have strong analytical and financial modelling skills, the ability to interpret figures and good written skills. Previous experience of publishing high-yield sell-side research is not necessarily required, but a minimum of 3 years' experience in the European Telecoms Market is a prerequisite, whether in industry, equity research or investment banking.

Interested candidates should send their resumes in strict confidence, including current remuneration, to Laura Vickers at The Berwick Group, 51 Lincoln's Inn Fields, London WC2A 3LZ. Tel: 0171 404 6446 Fax: 0171 404 8062 email [laura.vickers@berwickgrp.com](mailto:laura.vickers@berwickgrp.com)

THE BERWICK GROUP

## Euro interest rate swaps excellent package

A major international broker is looking to expand its activities in the Euro interest rate swap market.

Operating from their London office candidates should have the following:

- 2/3 years experience as a broker or bank trader/marketeer in the swap market.
- A proven client list.
- The ability to make a positive contribution to the existing business.

Salary will be commensurate with skills and experience. All responses will be handled in the strictest confidence.

Please send your curriculum vitae and details of current remuneration package to:

Box A6840, Financial Times,  
One Southwark Bridge, London, SE1 9HL

## IT Appointments

**DEPUTY TO THE I.T. MANAGER**

PROJECT MANAGER PARIS

The Council of Europe Social Development Fund is a renowned multilateral development Bank, wishing to reinforce its I.T. Department by the creation of a permanent position of deputy to the I.T. Manager.

- You will take part in the implementation and maintenance of the new information system.
- You will participate in:
  - Strategic orientation and functional architecture
  - Requirement analysis
  - Software selection and implementation.
- You will be accountable for the supervision of projects including implementation, cost, co-ordination of internal and external resources.
- You will be responsible for the follow-up and upgrading of the information system in liaison with users.

This position, closely related to the decision centres, requires a degree in information technology, a proven record of success in project management gained either in a banking institution, in a consulting firm or a software company.

Candidates should send their application (C.V., photo, present compensation package), quoting reference FD-1443

**AD HOMINEM International**  
5, rue de Surène  
75008 Paris - France  
Fax: (33-1) 37 42 08 06  
E-mail: [adhominem@infonie.fr](mailto:adhominem@infonie.fr)

**Ready for a world of information?**

**Group Finance Systems Controller**

**West London** **£ Excellent package**

Taylor Nelson Sofres is one of the world's leading marketing information organisations with more than 4,600 employees in over 30 countries. We have one of the most dynamic records of growth and profitability amongst companies listed on the UK Stock Exchange and are the only research agency quoted as a FTSE 250 company. Our success is based on the excellence of our people and their ability to deliver innovative solutions to major brand leading, blue chip companies.

As part of our continued growth and success, we have a new and challenging opportunity within the organisation. We seek to recruit a Group Finance Systems Controller to take overall responsibility for driving the development of group-wide finance systems, supporting the improvement of performance through the provision of better information for decision making. With this it will bring greater control, speed and efficiency of processing. The position reports into the Group Financial Controller, but will work closely with the Group IT department, as well as external suppliers.

We seek a talented individual, who can bring with them a real willingness to take on responsibility, as well as being adaptable, a problem solver and having the imagination to see both the global and local picture.

Ideally, you should have previously held a senior financial systems position within a large international finance department, and have a good working knowledge of software and multi-office database packages, as well as a desire to become the 'expert' in the finance systems of a complex group.

You should also have gained experience in project management and systems implementation internationally, as well as having outstanding communication skills. Language skills, particularly French, would be advantageous.

As a highly successful world-wide group, we can offer you a dynamic opportunity with real responsibilities and a chance to make an impact. To apply, please send your CV and a covering letter to:

Sharon Perez, Resourcing Director,  
Taylor Nelson Sofres, Westgate, London W5 1UA, UK  
Email: [Sharon.Perez@tns.co.uk](mailto:Sharon.Perez@tns.co.uk)  
Fax: +44 (0)181 967 4655

*(Applications via Recruitment Consultants will not be considered)*

**KAPPA**

Kappa Management International Limited,  
the UK subsidiary of  
the Paris-based  
Kappa Group,  
has opportunities for  
degree qualified  
professionals with  
skills in the banking  
and insurance sectors.

Please apply with your CV and details of current remuneration and salary to:

Human Resources,  
Kappa House,  
100 Southwark Road,  
Croydon CR9 1JX  
Tel: 0181 488 2217  
Fax: 0181 488 4336

*(Applications via Recruitment Consultants will not be considered)*

## PROJECT MANAGERS FINANCIAL BUSINESS ANALYSTS ARCHITECTS

In response to the varying needs of our clients, you will be involved in technical and business feasibility studies, work specification and project control.

The ideal candidates will have a background in financial business processes or in project management and will possess excellent communication and interpersonal skills. For the senior positions, proven leadership and initiative qualities will be important.

### IT BANKING

## CAREER OPPORTUNITIES IN CONSULTING FOR

Project Managers • Business Analysts • Technical Architects

Our client is a well respected and established consultancy firm, delivering quality professional services and expertise to banks and financial institutions.

Their continued success has resulted in opportunities for Consultants and Junior Consultants to be part of, and contribute to, their growth strategy.

All positions require experience of one or more of the following:

- Treasury and Capital Markets
- Risk Management
- M&A

- Back Office and Settlement Systems
- Derivatives and Fixed Income
- Financial Software Development.

You must have:

- At least 2 years' experience of IT banking
- Good interpersonal skills to develop client relationships
- The ability to plan and manage your own work
- A pragmatic approach to problem solving

- An all-round positive attitude
- A delivery oriented approach.

This Consultancy has a strong people culture and is fully committed to major investment in training and career development. Individual responsibility and achievement are recognised, encouraged and rewarded.

Please send your CV to Alan Summers, quoting reference FT0499A at S&H Consulting Limited, Lloyds Avenue House, 6 Lloyds Avenue, London EC3N 3AX. Tel: 0171 481 1171.

email: [SHConsult@aol.com](mailto:SHConsult@aol.com)

*(Specialist Recruitment for the Banking and Finance Sector and the Suppliers to that Sector)*



## ACCOUNTANCY APPOINTMENTS

## SENIOR PROPERTY ANALYST

## LONDON

Recognised as one of the largest and most successful corporations operating in a highly competitive sector, this is a truly global business employing in excess of 100,000 across all five continents.

This high profile role has materialised at a significant stage of the corporation's development. Both varied and challenging, the position will be largely project based, covering a portfolio in excess of seven million square feet across Europe, the Middle East and Africa.

As a key team member charged with ensuring that real estate solutions are in the best interest of the shareholder, key responsibilities will include:

- performing financial analysis on real estate alternatives and evaluating proposals to assist senior management in making strategic decisions
- analysis scenarios frequently include acquisition and disposals, sale/leaseback, own versus buy, build versus buy and construction projects alternatives
- ensuring that all analyses adheres to corporate accounting policies as well as identifying tax issues and solutions
- preparation and recommendation of major expenditure programs.

The successful candidate will be a qualified accountant or MBA with a demonstrable track record of achievement to date, prior knowledge of property

management/investment/development is essential.

Highly developed communication and analytical skills are prerequisite as is the ability to present business issues and recommendations to senior management.

Interested candidates should contact Charles Davenport or Jon Vank at Robert Walters Associates, 10 Bedford Street, London WC2E 9HE.

Tel: 0171 379 3333 (Fax 0171 915 8714)

Email: [charles.davenport@robertwalters.com](mailto:charles.davenport@robertwalters.com)

Web: <http://www.robertwalters.com>

You may also apply via [http://raps.com/Robert\\_Walters](http://raps.com/Robert_Walters) quoting reference RW315.

ROBERT WALTERS ASSOCIATES



LONDON TRAMPS VALLEY AMSTERDAM BRUSSELS FRANKFURT NEW YORK HONG KONG SINGAPORE SYDNEY MELBOURNE WELLINGTON AUCKLAND JOHANNESBURG

## DEBENHAMS

BRITAIN'S FAVOURITE DEPARTMENT STORE

## Excellent Packages

## London

MWA  
MARTIN WARD  
ANDERSON

**The Company**  
Debenhams Plc is the UK's market leading, clothing-led department store with a turnover of £1.4 billion, and was recently awarded Retailer of the Year. Plans for the future include the opening of 15 new stores within the UK, coupled with additional overseas expansion. Continued growth of the business has resulted in the need to recruit a number of positions in the finance function in order to aid the commercial decision making process.

**The Opportunities**  
The head office finance team in London provides the business with essential financial analysis and commercial support. Debenhams has a commitment to providing individuals with challenging commercial experience. They have a demonstrable record of recruiting high calibre individuals at this level and progressing them through to senior management positions. You will gain exposure to strategic planning, performance review, investment appraisal and cost/value analysis - working directly with the line functions.

For further information, please call Mark Freebairn or Louisa Murphy at Martin Ward Anderson on 0171 240 2235. Alternatively, send or fax your CV to them at Martin Ward Anderson, 7 Savoy Court, Strand, London WC2R 0EL, fax 0171 240 8818, or email them on [m.freebairn@mwa.co.uk](mailto:m.freebairn@mwa.co.uk). Please quote reference 108275.

## Financial Analysts

## The Individuals

Suitable candidates will be recently qualified accountants with proven academic ability. Your personal qualities will be even more critical than your technical skills and you will be able to demonstrate credibility with non-financial people, commercial awareness and a flexible approach. You will also have well developed analytical and PC skills, with the determination and drive to succeed within a highly pressurised team environment.

## The Benefits

In return for your commitment, they offer a very competitive remuneration package including a car or car allowance, bonus up to 20%, 1-6 zone travel card, generous staff discount and a contributory pension.

Debenhams is an equal opportunities employer.



HANOVER HOUSING ASSOCIATION

## Assistant Director of Finance

The Hanover Group is one of the leading providers of high quality housing and support services for older people in the United Kingdom. This forward looking and innovative Housing Association has a group turnover of over £30 million and manages around 15,000 rented, leasehold and freehold homes throughout England.

## Staines, Middlesex

c £42,000 + Car

Reporting to the Group Director of Finance, this role has a key part to play in developing the strategic financial plans for the group and its financial management reporting.

Responsibilities of this broad and challenging role include:

- Reviewing and assisting with the preparation of all financial appraisals in relation to strategic planning initiatives and new business ventures.
- Overseeing and assisting with the preparation of all financial management information including the group budget and financial aspects of the corporate plan.

- Controlling and developing the treasury management of the Group.

The successful candidate will be a qualified accountant with strong commercial acumen and at least five years experience at senior management level. Excellent communication and presentation skills are essential.

Interested candidates should write, enclosing their CV and details of current package, to Matthew Morris at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN. Fax 0171 831 6293, e-mail: [matthewmorris@michaelpage.com](mailto:matthewmorris@michaelpage.com). Please quote reference 506304. The Hanover Group is an equal opportunities employer.

Michael Page

FINANCE

[www.michaelpage.com](http://www.michaelpage.com)

Australia • China • France • Germany • Hong Kong • Italy • Netherlands • New Zealand • Singapore • Spain • UK • USA

## Finance Manager

## Dublin

c £50,000 + Car + Package

Our client is one of Europe's leading retailers with an outstanding record of growth. Demonstrating an innovative and refreshing style to food retail by providing the highest quality products at the lowest possible prices.

The development of the Irish market is part of their continued long-term expansion plans which has created a superb opportunity for a Finance Manager for Ireland. As Head of Finance and Administration you will report to the Managing Director. The role will have a wide and varied brief encompassing the following:

- Implementation of financial and management account systems.
- Ensuring policies and procedures are to company standards.
- Responsibility for IT and implementation of accounting software.
- Company secretarial duties including human resources.

- Statutory returns to appropriate bodies.

This key role requires a commercially focused, self motivated, young qualified Accountant.

The demands of the role ensure that the individual must have a flexible, hands on approach with a willingness to be involved in all aspects of the business.

Prerequisites are not only your excellent interpersonal and motivational skills but also a track record of achievement from within an expanding organisation. The successful individual will also have a working knowledge of German.

If you feel you have the necessary drive and ambition to contribute to the continued success of this top retailer, please contact our retained consultant Laurence Pengelly at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN or fax him on 0171 242 7387, quoting ref 495464, e-mail: [laurencepengelly@michaelpage.com](mailto:laurencepengelly@michaelpage.com)

Michael Page

FINANCE

[www.michaelpage.com](http://www.michaelpage.com)

Australia • China • France • Germany • Hong Kong • Italy • Netherlands • New Zealand • Singapore • Spain • UK • USA

## INTERNATIONAL OIL &amp; GAS COMPANY

## EXCELLENT PACKAGE

## LONDON

Successful British independent requires outstanding accountants for two key roles within high-calibre head office finance team.

## CONTROLLER

## THE POSITION

- Responsible for head office accounting function and preparation of Group's published and subsidiary statutory accounts.
- Manage team of six, covering financial accounting, ledgers, accounts payable and payroll function for 70 employees.

## QUALIFICATIONS

- Qualified accountant with 5+ years' PQE, mostly gained in upstream E&P business. Knowledge of UK GAAP essential.
- Strong supervisory skills. Previous experience with Code and/or SUN general ledger preferable.

## MANAGEMENT ACCOUNTANT

## THE POSITION

- Responsible for annual group budget preparation and monitoring. Prepare forecasts to assist development of corporate strategy.
- Ensure timely submissions for management reporting, including monthly Board reports.

## QUALIFICATIONS

- Qualified ACA or ACMA with 3+ years' PQE in oil and gas industry. Track record of achievement.
- Broad-based commercial background. Familiar with economic modelling techniques. Strong analytical skills.

Both positions report to the Group Finance Manager and require highly motivated professionals with excellent interpersonal skills and the confidence to challenge and influence at the highest management levels.

Please send full CV, stating salary and ref: RD15/16, to SPC, Lynwood House, Summerhouse Road, Godalming, Surrey GU7 1PY. Tel: 01483 428215 Email: [signorelli@compuserve.com](mailto:signorelli@compuserve.com)



SIGNORELLI PETROLEUM CONSULTANCY

## Chief Financial Officer

## Central London

c £45,000 + Bens

An excellent opportunity exists within this dynamic and very profitable software and computer peripheral company. A combination of niche market leading products and impressive sales performance has provided a platform of fast growth which is set to continue. These growth expectations and a recent business restructure has created a requirement for a hands-on, commercially minded CFO.

Reporting to the Board of Directors, the main responsibilities will include:

- High level commercial involvement in decisions influencing future business growth.
- Development of management information systems.
- Production and commercial analysis of management reports.
- Development of logistics systems.

- Implementation of a new budgeting and forecasting process.

The ideal candidate will be a professionally qualified accountant with strong management systems experience, gained as a number one or two in finance of a small or medium sized commercial environment.

Key to this position is the individual's enterprising spirit and ability to operate in a fast growing, international, hi-tech development and distribution company. You will have strong stock control and IT skills. Excellent financial prospects for the right candidate.

Interested candidates should send a full CV to Nigel Barcham CPA at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN or fax 0171 831 6746, quoting ref 505251, e-mail: [nigelbarcham@michaelpage.com](mailto:nigelbarcham@michaelpage.com)

Michael Page

FINANCE

[www.michaelpage.com](http://www.michaelpage.com)

Australia • China • France • Germany • Hong Kong • Italy • Netherlands • New Zealand • Singapore • Spain • UK • USA

## Speculate and accumulate.

Accountancy Appointments every Thursday in the FT.

Includes Tax Specialists, Analysts and Finance Directors.

For more information on advertising opportunities please call:

Tel: +44 171 873 3351 Fax: +44 171 873 4331

مكتبة الامر



## DIRECTOR OF FINANCE AND ADMINISTRATION

City of  
London

**SACKER**  
& PARTNERS

c £70,000  
+ Bens

Sacker & Partners is a City firm of lawyers, occupying the leading market position within their chosen field of pensions law. As a result of their success, they require a professional manager to take up the role of Director of Finance and Administration, to play an integral role in the management and development of the practice.

### THE POSITION

- Develop all aspects of practice management and administration.
- Deliver astute and commercial financial management within a highly professional environment.
- Support and advise the Partnership with regard to best practice across a broad range of activities, from MIS and support systems to business development programmes.

### QUALIFICATIONS

- Qualified accountant, with at least 10 years experience of commercial management, preferably within a professional services firm or partnership.
- Strong intellect, with excellent interpersonal ability evidenced by first class communication and organisational skills.
- Keen sense of purpose, able to move the agenda forward whilst achieving appropriate levels of buy-in across an extremely motivated and open partnership.

Interested candidates should write, in the strictest confidence, enclosing full career and salary details, to Jon Boyle at Questor International, 3 Burlington Gardens, London W1X 1LE, quoting reference 2626. Telephone 0171 292 8300. Fax 0171 287 5457. e-mail: jboyle@questorint.com

**QI**  
QUESTOR INTERNATIONAL

## FINANCIAL CONTROLLER

### EXCITING OPPORTUNITY IN SUCCESSFUL INTERNET COMPANY

LONDON

UP TO £60,000 + BENEFITS

Multex.com is a leading online investment research network serving the needs of both the individual and institutional investor. It enables timely access to over 1,000,000 research reports from more than 450 investment banks, brokerage firms and third-party research providers worldwide through the application of cutting-edge Internet technology.

Multex.com has been one of the most successful flotations on NASDAQ in 1999. Multex's ambitious growth plans have created the need for a Financial Controller to join the London operation.

Working closely with the UK CEO and the US based CFO, this broad based role covers all key financial elements involved in running an expanding business. Initial challenges include setting up systems and procedures to manage the company's relationship with

Reuters and establishing sophisticated forecasting and budgeting models for the international business operations.

You will be an ACA/ACMA with at least 3 years' general PQE gained in a professional services environment such as a major accountancy practice. International experience, an understanding of US GAAP and knowledge of the financial services sector would be advantageous.

Candidates must thrive in a non-bureaucratic environment characterised by pace, change and growth. First class communications capabilities will be combined with systems expertise, well honed financial modelling and analytical skills and a strong detail orientation.

This is an exciting opportunity for an exceptionally talented and flexible individual who has the intellect and confidence to work at the heart of a rapidly growing business.

Please apply in writing quoting reference 1806 with full career and salary details to:  
Fiona Makowski, Whitehead Mann  
11 Hill Street, London W1X 8BB  
Tel: 0171 290 2054. Fax: 0171 290 2050  
Email: f.makowski@whiteheadmann.com  
www.whiteheadmann.co.uk

**multex.com**

**Whitehead**  
SELECTION

## FINANCE DIRECTOR MALAYSIA

A leading Malaysian engineering group, engaged in power, electrical, mechanical and electronics systems contracting is seeking a Finance Director.

The group is in sound shape and has made outstanding progress in recent years in expanding its business in terms of both scope of activities and market coverage. It has a permanent presence in several other Asian countries which now account for one-half of its business.

The group's managing and finance directors enjoy a high degree of autonomy and profit responsibility in demanding environments. Candidates must therefore possess well developed commercial acumen and thrive on shape-and-involvement. The appointee will be expected to make an immediate contribution in the area of financial control, treasury and working capital management and business development.

Candidates, who must be qualified accountants, preferably with a U.K. qualification, are likely to be aged between 35 and 45, and will be able to demonstrate good career progress at a senior level in results-oriented companies. Prior experience in business involved in substantial project/contracting work is desired. The ability to respond to the culture of a largely indigenous workforce is also important.

Expatriate terms will apply.

Please reply with full curriculum vitae to Box: A6842, Financial Times, One Southwark Bridge, London, SE1 9HL.

## Director of Finance

The University of Reading

Attractive Senior Level Remuneration

With its origins in the last century, The University of Reading is internationally renowned for academic excellence in its teaching and research. The University comprises over 4,500 academic and support staff and around 12,000 students, and has an annual budget of over £100m. The new role of Director of Finance, reporting directly to the Vice-Chancellor, reflects both the size of the University and the importance attached to its effective financial administration.

### THE POSITION

- Full responsibility for all accounting and financial reporting. Develop systems and procedures to ensure accurate, timely management information and statutory compliance.
- Lead multi-faceted budgeting process. Advise departmental faculties on resource allocation, financial management and grant bid preparation.
- Co-ordinate strategic financial planning. Key member of senior administrative team. Manage department of 60 staff.

### QUALIFICATIONS

- Proven senior finance professional. Commercially-minded experience of education/public sector an advantage.
- Qualified accountant/graduate. Excellent accounting and financial planning skills. IT literate.
- Natural manager and relationship builder. Effective, co-operative communicator; immediate credibility and impact at all levels.

Please send full cv, stating salary, ref LG201598FT, to NBS, 54 Jermyn Street, London SW1Y 6LX  
Fax 0171 409 1786 Email jnb@nbs-selection.co.uk Tel 0171 529 1750

Aberdeen • Birmingham • Bristol • Cardiff • City • Edinburgh • Glasgow

Leeds • London • Manchester • Rotherham • Slough • Southampton • Stoke • Swansea • Telford • York

NBS Selection

**NBS**

Financial Management

ISO 9002 Registered

### APPOINTMENTS WANTED

International Corporate Tax Professional

I seek a position within a company/group that accepts age = experience. I am over 50!  
Director level appointments with top 100 U.S. groups. Europe/M&A/Transfer pricing specialities.  
Available immediately.  
Tel 07971 415771

## A REWARDING CAREER IN EUROPEAN ENERGY



Eastern Group is one of Europe's leading integrated gas and electricity companies with a turnover in excess of £3bn. Established as a market leader in the UK, the Group has strengthened its operations across continental Europe over the last 18 months, with offices in Spanish, the Hague, Frankfurt, Milan, Madrid, Stockholm, Paris, Warsaw and Prague. A new opportunity now exists for an experienced Finance Manager to join the Spanish operation.

### The Role

Working within a small but dynamic team in Madrid, your role will involve providing financial control and support to the operation. Specifically, this will involve providing the accountancy function from first principles, preparation of monthly financial reports, budgets and regular cashflows, with responsibility for managing a small team. As the business develops and expands, the scope of the role will broaden to include a more commercial focus.

### The Appointee

To succeed within the role, you should be able to demonstrate a track record of progression and achievement in a commercial, financial role and possess the energy to help build this growing business. You will also have gained experience of working within an international environment that must include Spain. The ability to speak Spanish and English fluently is essential. In addition, the following attributes are sought:

- A professional business qualification
- Strong interpersonal skills with an open-minded approach
- A self-starter, capable of working on your own initiative
- A team player with an adaptable approach to fit into the team
- A strategic thinker with broad commercial skills

Eastern Group offers excellent promotion prospects and encourages progression within the Group. As the business develops, there will be further opportunities within the Madrid office. Therefore, only those are also invited from candidates seeking roles which are focused on the evaluation, negotiation and implementation of commercial energy deals. Previous experience of working in the energy or financial sectors would be an advantage.

To apply, please send your cv and covering letter in English to Lynn Walters, HRs Executive, 2nd floor, Janus House, 46 St Andrews Street, Cambridge CB2 3AH. Tel: 01223 324323. Fax: 01223 362359. Email: cambridge@eastern.co.uk  
To find out more about Eastern, please visit our website at <http://www.eastern.co.uk>

We are an equal opportunity employer

Finance Manager

Madrid

c10m pesetas

## European Finance Director

Based in London

Circa £75,000

Our client is a progressive and dynamic European group within an American commercial construction company. This rapidly growing organisation has offices in London and Paris with plans for further European expansion over the next two years. The American parent company has an annual turnover of \$400 million.

Based at the European headquarters in London, you will report directly to the International Finance Vice President in the United States. You will play a key role in the strategic development of the company. Predominantly you will be responsible for the financial management and control of this

autonomous European group. Key tasks will include project accounting, cost control and planning, budgeting, forecasting and providing advice and guidance on key accounting systems and legal issues. Primary responsibilities will involve contact and negotiation with major clients, banks, sub contractors and vendors.

The successful candidate will be a graduate Chartered Accountant with excellent technical capabilities and proven leadership and management skills. To apply, you must have experience of working in several European countries, preferably within the commercial construction industry.

The ability to communicate at all levels of the organisation will be crucial to success in this position. Languages would be advantageous.

To apply, please send a copy of your CV, including current salary details, to Sharon Hamilton at either the address below or by E-Mail [ad.london@uk.deloitte.co.uk](mailto:ad.london@uk.deloitte.co.uk) quoting reference 2804/s.

**Deloitte & Touche**

management solutions

Deloitte & Touche, Stonecutler Court, 1 Stonecutler Street, London EC4A 4TR.

## BUPA Care Services

### Finance professionals

Leeds

BUPA is the UK's largest private health organisation, looking after around four million people in 190 countries worldwide. Our activities extend beyond health insurance, including management of acute hospitals, care homes and health screening centres, as well as occupational health centres, homecare services and nursing services. In 1997, we made a major investment in Care Services with three key acquisitions. By controlling the finance function in Leeds for the Care Services division, a number of excellent opportunities have arisen within one of the largest finance departments in Yorkshire. As an integral part of the management team, we are seeking to make two new, key appointments.

**Head of Finance - Home Care £45,000 + Package**  
Reporting to the Finance Director, this role carries sole responsibility for the provision of financial and management information across the 50 Home Care branches, turnover £40m. A broad-based position covering capital investment, cash management, systems development and strategic review, you will also manage a sizeable team including part-qualified and qualified staff. You will ideally be a chartered accountant with at least three years post-qualification experience, preferably gained in a multi-site environment. You will be able to demonstrate strong commercial awareness and the ability to communicate effectively at all levels. A proactive approach and experience of change management will be essential for this exciting role.

**Financial Services Manager £50,000 + Package**  
Managing a department of over 70 staff, providing a shared services function across the Care Services division, turnover £350m, you will form a key part of the senior management team, reporting to the Finance Director. Operationally focused on processing all transactions for Care Services, you will manage banking procedures, cashflow, debt management and payroll for 30,000 employees, and be instrumental in systems development. A qualified accountant with at least five years relevant experience in a large company environment, you will have excellent team-management skills and be able to demonstrate a strong understanding of procedural issues in a multi-site organisation. A superb opportunity for the right candidate.

For more information, contact our retained recruitment advisors, Hays Accountancy Personnel on 0113 243 8384. Alternatively, send your cv, including salary details, to Sovereign House, South Parade, Leeds LS1 5QL. Fax: 0113 243 2196. E-mail: [leeds@hays-ap.co.uk](mailto:leeds@hays-ap.co.uk)

All direct applications will be forwarded to Hays Accountancy Personnel.

**Hays Accountancy Personnel**

## FINANCIAL CONTROLLER

Bedford

c.£60,000 + car + bonus

Our client is a FTSE 500 company in a high-profile service sector and has grown an £85m business from scratch in less than 20 years. There are ambitious plans to sustain double-digit expansion through a judicious blend of organic growth and targeted acquisitions.

The recently appointed Finance Director has identified the need for a significant upgrading of resources within the finance function to meet the demands that these challenging plans will generate and this new appointment is a key element in his proposals. In the new structure the Financial Controller will be responsible for all aspects of the accounting function at headquarters and regional centres. The role also provides the

valuable opportunity to work closely with the Finance Director on implementing a coherent and wide-ranging programme of change, developing a high quality service to management which can be seen to add value to the business. A multi-million IT investment will provide modern resources to help drive this programme through.

Candidates must be qualified accountants with at least 5 years' PQE and experience of controlling an overall function and of managing change.

Please write with full CV, including salary history and daytime telephone number, quoting reference 1795/FT, to Dick Phillips ACIS, Phillips & Carpenter, 2-5 Old Bond Street, London W1X 3TB. Telephone 0171-493 0156.

**Phillips & Carpenter**  
Search and Selection



## MARKETING DEVELOPING COUNTRIES

## Putting Kenyans in the picture

Mark Turner looks at the work of a marketing agency bringing mass media to new consumers in rural Africa

An expectant hush falls over the crowd as Jambeck Baraga, deputy provincial commissioner for Rift Valley, approaches a black box hanging outside the shops at Bahati trading centre.

The assembled farmers watch closely as the cask is opened, and Mr Baraga fumbles to switch on the treasure inside. As it splutters into life, children from St Lwanga primary school, immaculately turned out in blue and white-checked uniforms, surge towards the small protective cordon.

After two hours of dances, poems and speeches from local dignitaries, this is what they came for - the first showing on a television-video provided by Regional Reach.

This is no charity event funded by guilt-racked western donors - Regional Reach is a profit-making organisation. The concept is not unlike the free magazines handed out in industrialised capitals: the medium is entirely paid for by advertising, which is bought in two-week blocks and shown every day on 30 televisions in each of nine regions.

Rose Kimotho, managing director, hit on the idea after seeing a project in South Africa to put televisions in the townships. The scheme started in 1994 following discussions with clients.

Five years later, Regional Reach has set up 180 TV-video sets, and has attracted clients including East Africa Industries (Unilever), Cadbury's, Cussons and Population Services International, the non-governmental distributors of Trust condoms.

Once a week the company provides two two-hour videos to each centre. They contain a mix of programmes in Kiswahili, ranging from educational films about agriculture and Christian shows to sport and action-adventure. Staff invite feedback: western Kenya, it transpires, likes Zairean music, whereas central Kenya prefers farming and religious programmes.

On average, each four-hour show contains eight minutes of advertising. Ms Kimotho's target is 20 minutes. Adverts can be targeted to specific regions - coastal and humid areas for insect repellents - and some companies are experimenting with adverts in the local vernacular.

Regional Reach says that after the initial excitement audiences around each set range from 150 to 700 people at a time. Media Initiative East Africa, a research company, has found that more than 1.6m people have seen a public viewing TV over the past three months, (whether on Regional Reach, bars or hotels), with an increasing

number identifying Regional Reach sites as the source.

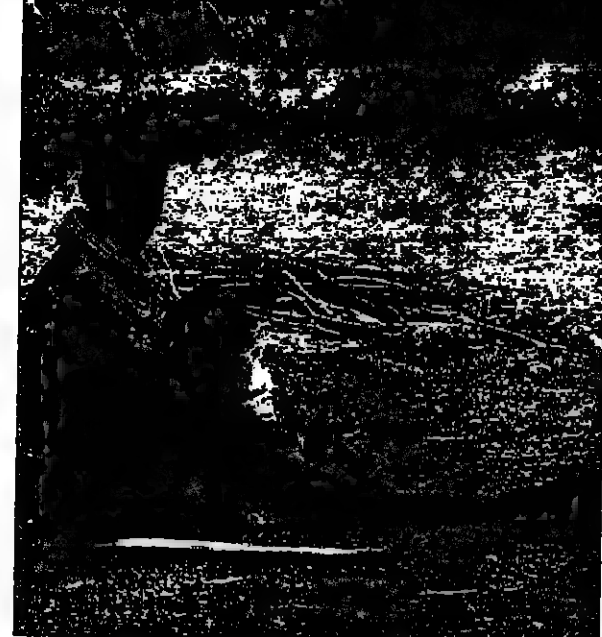
The locals love the free entertainment. "I am very happy about this," says Anne Wairimu, a 30-year-old single mother who farms potatoes 2km from the shops. "I have seen TV in the town (Nakuru), but it is too far. I expect to be taught how to farm effectively, how to prevent diseases, and how to cook special foods like cakes."

Mutonga Waweru, who owns the Bahati shops where the TV is situated, and who will provide its power, sees the screen as a boon for business. "Since it was set up here, we have seen a lot of clients, who came to see the TV. I hope they will keep on coming."

Advertisers also appear pleased, although it is difficult to assess the programmes' precise impact.

"We market consumer goods like kitchen products, personal care, cooking fats, household cleaners. We are currently advertising Omo (washing powder) with Regional Reach," says Judy Kamau, media manager for East Africa Industries. "This is a way of upping our reach in rural areas: because it is visual, it is very effective. People want to be part of the TV story."

Until now, the main media for reaching rural audiences have been radio and techniques such as "wall-branding", where a product's logo and colours are painted on a shop. Nationally, 43 per cent of the population has access



Reaching out rural areas have access to public TV. Pence Pictures

to TV, according to Lois Kühle from Media Initiative, and ownership is 15 per cent. Around Bahati that figure is probably closer to 3 per cent.

Television adverts tend to reinforce the radio message, adding a lifestyle element, although it will take some time for consumers to demand specific brands rather than a generic product - cooking fat is often sold in unidentified chunks wrapped in paper.

Because the sets are seen as community property, and associated with the government luminaries invited to the launch, theft is rare.

So far the local authorities have been accommodating, as Regional Reach offers

them a medium to disseminate educational programmes. The programming is apolitical, although Kenya's two main parties advertised during the last election, and there are hopes more parties will use the sets next time.

Ms Kimotho says the project is not only profitable, but rewarding. In Kenya, where many of the country's athletes come from, villagers were overjoyed to see their heroes on screen from halfway across the world.

"Our philosophy is simple: we have a social responsibility to inform, educate and to make a healthy profit," says Ms Kimotho.

## MARKETING LOGOS

## The triangular shape of things to come

Victor Mallet deciphers Anglo American's redesigned corporate logo as it tries to put the apartheid era behind it

To say that Anglo American Corporation, South Africa's biggest company, has long had a problem with its international image is an understatement. For most people, Anglo is a group that made its money by exploiting black South Africans in the apartheid era, helping to prop up the old regime with revenues from its mines.

Among professional investors, Anglo was also notorious for a fiendishly complicated corporate structure that ensured its shares traded at a discount to their net asset value.

Understandably, the company was discreet in its dealings with foreign markets. It either used a simple logo with the lower-case letters "aac" or conducted operations through associates such as Minorco, its Luxembourg-based offshore arm.

Anglo is now coming out of its shell. It is absorbing Minorco and announcing plans to expand its international business. In May, it will move its headquarters and primary stock exchange listing from Johannesburg to London. And, as befits a company that wants to impress fund managers when it joins the FTSE 100 index, it has paid £100,000 for new corporate colours and a new logo: a rough-hewn, blue triangle with terracotta red at its centre.

"This was a signal of change," says Gareth Williams, strategy partner at The Partners, the London graphic design company that

won the contract. "There was an unequivocal desire to make a strong statement: 'We are here'."

A team of 10 from The Partners set out to produce a design that reflected a company fighting against political and geological odds to extract value from the earth. "We started with the notion of the earth itself," says Mr Williams. "The symbol is quite a natural form. This has not been designed by a computer on some sort of geometry programme. We wanted a more naturalistic feel."

The use of layers in both the logo and other corporate designs is geologically obvious - "You have to drill down into the earth and very often the valuable material is hidden beneath the surface," explains Mr Williams. The dark blue used is reassuringly safe and contrasts nicely with the red, which represents not only the earth but also

seams and kernels of value under the layers of blue. Blue, says Mr Williams, helps give Anglo the "global stature" it is looking for.

Now it is a matter of waiting to see if investors are impressed. The recent surge in the share prices of commodity companies may prove useful for the London listing, but the company is not taking any chances.

It has launched an advertising campaign to boast about the speed of its restructuring and published a booklet to explain its new livery. "We created a shape that matches our character and personality," it says.

"Distinctive and different. Bold. A one-off. Our new identity reinforces that we now a more powerful, unified and focused company, with a world of resources to compete in international markets."

This new image, Anglo American directors hope, will set the seal on the company's transformation from apartheid-tainted conglomerate of the 1980s to focused international mining giant of the new millennium.

**aac**

Anglo American Corporation of South Africa Limited



**ANGLO AMERICAN**

Then (top) and now

# how to spend it



home fixers, wreck divers, cyber buyers

Refining the art of domestic delegation, searching for sunken Filipino treasure and bidding for Michael Owen's shorts on the internet. All in how to spend it colour magazine, free with the Weekend FT tomorrow.

FINANCIAL TIMES  
World business newspaper.



DAVID BOWEN  
WEB SITE INSPECTION

## Indian religion goes west coast

Sikhnet is a marriage of the traditional and the modern. Its highlights include a dating service and some 250 hours of music

Sikhs are celebrating the 300th anniversary of the Khalsa, their core community of committed members, and there are all sorts of Sikh-related happenings around the world.

Sikhnet is a huge site created by an American Sikh, Gurumustak Singh Khalsa. His father was Christian, his mother Jewish - facts I found on the site alongside his wedding photographs.

I can carp about the unlovely and overcrowded home page, with no less than 55 links in eight sections. I can complain about a handful of broken links and over-long pages. But, overall, this is a *tour de force*, applying sophisticated west coast techniques to an Indian religion. When you arrive, a pop-up box quizzes you for a poll. Like the rest of the site, this is aimed at Sikhs. For example: What sort of Sikh are you? "I wear a turban and eat meat" or "I wear a turban and do not eat meat".

Highlights include a dating service, which mixes the modern ("the hottest guy you will ever meet") with the traditional (a Tantric numerology calculator, showing that the hottest guy has a karma of four). Then there are screensavers (you pay for them), print-out-and-colour-in pictures for children, and masses of music. A "randomiser" means you can play 261 hours of music non-stop.

Visitors are encouraged to add material, for example to the superbly organised "events" pages and the art gallery. Altogether, a remarkable mix of traditional and modern. Sikhnet [www.sikhnet.com](http://www.sikhnet.com) overall \*\*\*\*\* design \*\*\* navigation \*\*\*\*

The "electronic postcard" is well established on the web. You choose a picture, fill in a message and send it to a friend. The friend gets an e-mail, and clicks on a link to see the picture and message. Lots of corporate

sites allow you to send cards, usually featuring their products or logos. But E-greetings Network has gone much further, turning electronic cards into a business. The site offers a vast range in classifications from Star Trek to gay and lesbian. It attempts to turn the postcard into a business tool - you can send one that says: "Thanks for the meeting" or "There is nothing like a dream to create the future". The schmalz factor is distressingly high - but, schmalz is distressingly popular.

If you want to know why E-greetings Network is reported to be worth \$1bn (\$235m), look at the banner advertising and sponsorship that crowd the site. Before sending a card you have to register, giving information such as age and gender, which provide the sort of data advertisers love. Both senders and recipients see advertisements, and different areas have targeted campaigns: the gay and lesbian section has ads from PlanetOut, for example. While many sites make money from advertising, this one is interesting because it is a pure web business, built on Internet strengths: interactivity, clickability, multimedia and low-cost

distribution of data. [www.egreetings.com](http://www.egreetings.com) overall \*\*\*\* design \*\*\*\* navigation \*\*\*\*

The Scots and the Welsh are about to go to the polls, to vote for the Welsh National Assembly and the Scottish Parliament and so I visited the nationalist parties' sites - Plaid Cymru and the Scottish National Party. Neither, sadly, sets the world on fire.

Instead, we have practical features. The SNP site is the more effective here. Its press releases are well organised and it has lots of information. But it is presented unappealingly: the map of constituencies pulsates garishly, and much of the typography is ugly.

Plaid Cymru's site is full of glitches. The party's National Assembly team is represented by a fuzzy picture with a promise that "more details will appear soon" - this nine days before the election. Scottish National party [www.snp.org](http://www.snp.org) overall \*\*\* design \*\*\* navigation \*\*\* Plaid Cymru [www.plaidcymru.org](http://www.plaidcymru.org) overall \*\* design \*\* navigation \*\*\*

David Bowen is editor of Net Profit newsletter ([info@net-profit.co.uk](mailto:info@net-profit.co.uk)).

LET'S HOPE RUNNING A COUNTRY IS EASIER THAN ORGANISING A WEB SITE



ROGER BEMME

مكتبة العصر



## THE ARTS

# From café society to classical society

Susan Moore reports on how New York's Metropolitan Museum of Art lost a restaurant but regained a stunning exhibition space

Ever since the Metropolitan Museum of Art in New York turned its Roman atrium into a restaurant in 1948, its Greek and Roman collections have never been on continuous view.

The atrium had been conceived as the culmination of an entablature of grand Beaux-Arts galleries specifically designed for the chronological display of Greek and Roman art. Its change of use started a 45-year-long shuffle of the collections which, by the 1980s, had resulted in displays that made no sense.

Visitors began with Roman art and ended up in the Bronze Age; if they wanted to see the so-called decorative arts they were obliged to go upstairs. Moreover, the grand neo-Classical sculpture gallery created by McKim, Mead & White, one of the most imposing spaces in the museum, had become less a gallery than a corridor to the restaurant, offering an unlikely juxtaposition of Pompeian wall painting and Cypriot sculpture perched on teak platforms resembling stereo speakers. In 1980, after 30 years as head of the department, Dietrich von Bothmer retired. It was time for a radical re-think.

The most striking aspect of the Met's enormous three-phase masterplan for the Greek and Roman galleries is that it replicates, almost to the letter, the scheme worked out in 1912-17 by McKim, Mead & White and the Met's then director, the classicist Edward Robinson. The 140ft vaulted gallery south of the Great Hall is once again being used for monumental sculpture (Roman marbles after Greek bronzes) and vases, with its side galleries, culminating with Roman art in the reclaimed atrium. According to Carlos Pichon, the new departmental director, the reorganisation was not intended to be an exercise in reverential reconstruction; the original plan just seemed the most logical. Phase two of the project, the seven new

galleries given over to archaic and classical Greek art of the 6th to the 4th centuries BC, has just been unveiled, and looks far better than they can ever have looked in the past.

As originally intended, the main gallery walls have been clad in French limestone - the first world war delayed delivery of the stone, and faux-limestone paint was substituted. During the second world war, the gallery's skylights were closed; these have

**The vaulted gallery is once again being used for monumental sculpture and vases, culminating with art in the reclaimed atrium**

been re-opened, flooding the gallery with natural light. The drama of this presentation is entirely late-20th century, as is the relative sparseness and character of the display in these cool, pale, cavernous interiors.

Daylight raking in from side windows is similarly exploited to great effect in the first of the side galleries, showing to best advantage the museum's outstanding collection of Attic marble sculpture, the finest outside Athens. The three galleries flanking the other side of the main gallery are given over to the collection's other great strength: superlative Greek vases - black figure, red figure and white ground. Here the display reflects the generosity of many benefactors from J.P. Morgan onwards, and Dietrich von Bothmer's abiding passion for the subject: he, most notably, acquired the spectacular and previously unknown Euphronios calyx krater in 1972.

For the first time, visitors are able to move east to west and west to east between all these galleries, courtesy of four new portals cut into the main sculpture gallery. They make the gallery less of a corridor. Most significant of all the changes made in this re-installation is that the collections are no longer divided and grouped together according to media. While specialists may well lament the passing of the serried ranks of like material and the crowded cases of traditional, so-called study collections, this makes for a far livelier, more accessible and user-friendly display.

On one level, the collections can be read as a chronological history, on another they are used to explore themes central to the ancient Greek world - sport, the symposium, warfare, civic duty, death and the afterlife. Materials, techniques and style are also discussed, with the so-called Amasis painter singled out as the artistic personality best represented at the highest level within the collection. It is a display as demanding and instructive as the viewer chooses, offering to the most casual a succession of great trophies, beautifully presented in elegant galleries.

All the A-material is on display, as is 85 per cent of the entire collection, and the rest will be on open access. The project is yet another instance of the fund-raising muscle of the Met - these galleries alone, phase two, have cost somewhere between \$75m and \$80m - and of the commitment and seriousness of its staff. It also confirms what every museum administrator now appears to realise - and what museums in the 1940s and 1950s so vigorously denied - that museum architecture can be as much of a spectacle, and a draw, as the collections it contains. When the restaurant in the Roman atrium closes, by the way, two new eateries will open in its stead.



A Greek marble capital and finial in the form of a sphinx, c.530 BC

## LONDON MUSIC

## Proms spreads its wings

The first major London performance by mezzo-soprano Cecilia Bartoli singing Mozart and Haydn arias; two concerts by the Vienna Philharmonic with Sir Simon Rattle, featuring Mahler and Beethoven symphonies; and Sir Colin Davis conducting Beethoven's choral symphony in an evening which also features the pianist Alfred Brendel are among the highlights of the 105th Prom Season at London's Royal Albert Hall, announced yesterday by its director Nicholas Kenyon.

The Proms, which open on July 16, are the largest and most popular classical music festival in the world, with attendances of 88.4 per cent of capacity last year. This summer there are 72 Proms at the Albert Hall, plus five free early evening performances in the nearby Serpentine Gallery in Hyde Park at which composers will talk about their work.

Also in the park, on September 11, 35,000 people will picnic at an open air concert which takes on a giant screen a simultaneous transmission of the second half of the Last Night concert for its finale. For the first time the Proms will happen outside London: the same finale will also be relayed to similar concerts in Swansea and Birmingham. Along with Willard White, the Last Night celebrations also include Jeremy Irons singing the music of Noel Coward, one of this year's anniversary composers.

Other composers given celebratory tributes include Poulenc: a trio of Strausses, Richard, plus Johann I and II; and Duke Ellington. Among the composers whose work is prominently featured in the season is Nielsen, and among the themes are French music, and late and last works including those by Beethoven, Brahms, Bruckner and Mozart.

These final musical creations complement a more philosophical theme "The Ascent of Man". The Proms open with Tippett's triumphant *The Mask of Time*, and among the works maintaining the connection are Louis Andriessen's first Prom appearance, featuring his *Trilogy of the Last Day*.

On July 18 afternoon and evening concerts will be given over to *One thousand years of music in a day*, which will include works from every century of the millennium. Other special events include a late night Prom, one of 10, of Irish music, *The Blue Pies* children's Prom returns, and there will even be a Prom after the Last Night, another aimed at children which takes place in Hyde Park on the Sunday.

Around 40 per cent of the repertoire, 110 works in all, are new to the Proms this year, and there will be six commissioned premieres. There may be fewer visits by big international orchestras in 1999 - although the Pittsburgh under Murriss Jansons is appearing - but the Proms still offer excellent value, with 900 standing only tickets priced at £3 each night. The top price of £35 for Bartoli, Vienna and a few other top concerts are still around half what you would expect to pay elsewhere for these artists, and most Proms have a top price of £20.

Antony Thornecroft

## Richly poetic extravaganza

### THEATRE

#### IAN SHUTTLEWORTH

*Oroonoko*  
The Other Place, Stratford-upon-Avon

Aphra Behn's 1688 novella *Oroonoko*, or *The Royal Slave* may subsequently have been of great value to the abolitionist movement, but the half of the tale is here balanced by the story of Oroonoko's prior experiences in the Gold Coast kingdom of Comorantien.

In Biyi Bandele's adaptation for the RSC, Bandele says he took "nothing except the plot" from Behn's work, and indeed the dialogue shows all the signs of his characteristic register. It is at once richly poetic and sardonic: the king gives his personal bodyguard fearsome names, only to be told, "Blue Numbing Death's off sick today"; and the strain of courtly rhetoric which runs through accounts of war, love and, at one point, even the weather, is periodically punctured by wide-boy modernities such as when the ageing, lecherous king tells his latest prospective consort, "I tend to take a 'no' and yes it up."

One can bathe in the milk of Bandele's phrasing, and Doran's production supplies correspondingly rich spectacles: games, war-dances, a wedding ritual and even, once Oroonoko and his loved ones have been transported as slaves to Surinam, a nostalgic tribal blues to excellent percussive accompaniment by Juvon Ogunbe.

**One can bathe in the milk of Bandele's phrasing, and Doran supplies the appropriately rich spectacles**

Not infrequently, however, the picture grows blurred, the dramatic set-pieces becoming a kind of historico-anthropological travelogue. Quite early on, the adaptation and production show signs of wanting to part company. This is, after all, the tale of a noble prince's suffering at the hands first of a self-serving grand-vizier

character and subsequently under the casually brutal hypocrisies of an English slave-master. Doran seems to be going for a big, bright, buzzy - but always respectful and quasi-authentic - extravaganza to pull-in the punters (although not the young ones: if this season's *Midsummer Night's Dream* is deemed too risqué, what will school parties make of the extended exchanges of ritual praise of the king's prowess in the loincloth department?).

Nicholas Monu and Nadine Marshall, as Oroonoko and his beloved Imoinda, are at their best in the first act; after the interval, events take precedence, and the characters never really find strong voices in their new surroundings. Geoff Franche is icily assured as "the king's chief liar" Orombo, and Jo Martin both eloquent and yet direct as Imoinda's mother, Lady Onoko.

It is, however, an immensely engaging and enjoyable production... so much so that, notwithstanding the sudden, violently downbeat ending, it is possible to lose sight of the more sombre ingredients which are at the core of *Oroonoko's* claim to continuing attention.



Quasi-authentic: Ewart James Walters and Nicholas Monu in 'Oroonoko'

Alastair Hall

## INTERNATIONAL

## Arts Guide

## ABERDEEN

**DANCE**  
His Majesty's Theatre  
Tel: 44-1224-641 122  
Scottish Ballet: double bill of Bournonville's classic *La Sylphide* and Robert North's new work *Light Fandango*; Apr 30; May 1

## AMSTERDAM

**OPERA**  
Netherlands Opera, Het Muziektheater  
Tel: 31-20-551 8911  
Otello: by Verdi. Conducted by Carlo Rizzi in a staging by Klaus Michael Gruber, with a cast led by Vladimir Bogachov; May 1

## BALTIMORE

**OPERA**  
Baltimore Opera Company, Lyric Opera House  
Tel: 410-625 1600  
www.baltimoreopera.com  
Andrea Chénier: by Giordano. Conducted by Marco Armiliato in a staging by Bernard Uzan; Apr

30; May 2

## BARCELONA

**EXHIBITIONS**  
Museu Picasso  
Tel: 34-3-319 6310  
Raoul Dufy 1877-1953: retrospective bringing together 150 works including paintings, drawings, prints, ceramics and fabrics, loaned by public and private collections worldwide; from Apr 30 to Jul 11

## BEIJING

**DANCE**  
Exhibition Centre Theatre  
The Royal Ballet: Romeo and Juliet, in Kenneth MacMillan's staging with designs by Nicholas Georgiadis. With the Orchestra of the National Ballet of China conducted by Andrea Quirini; Apr 30; May 1, 2, 4, 5

## BERLIN

**DANCE**  
Deutsche Oper  
Tel: 49-30-34384-01  
A Midsummer Night's Dream: new staging by Heinz Spoerli, conducted by Arturo Tamayo, with sets by Hans Schaefer and costumes by Kees Dekker; May 1

## OPERA

Deutsche Oper  
Tel: 49-30-34384-01  
Der Fliegende Holländer: by Wagner. Staging by Götz Friedrich conducted by Christian Thielemann; May 2  
Lucia di Lammermoor:

conducted by Marcello Viotti in a staging by Filippo Sanjust; May 4

## CLEVELAND

**EXHIBITION**  
Cleveland Museum of Art  
Tel: 1-216-421 7340  
www.clevelandmuseumofart.org  
Diego Rivera: Art and Revolution. Major retrospective of the Latin American painter and muralist pioneer; to May 2

## EDINBURGH

**OPERA**  
Edinburgh Festival Theatre  
Tel: 44-131-529 6000  
Scottish Opera: Aida, by Verdi. New production by Antony McDonald, conducted by Emmanuel Joël. Cast includes Lada Birtukova and Rosalind Plowright; May 5

## FORT WORTH

**EXHIBITION**  
Kimbell Art Museum  
Tel: 1-817-3328451  
www.kimbellart.org  
Matisse and Picasso: A Gentle Rivalry. More than 100 paintings, sculptures and drawings on loan from collections around the world make up this first-ever exhibition devoted to the relationship between the two great modernists; to May 2

## HOUSTON

**EXHIBITIONS**  
Museum of Fine Arts, Houston  
(Tel: 1-713-639 7300) and Contemporary Arts Museum

(Tel: 1-713-284 8251)  
Art at Work: and Forty Years of the Chase Manhattan Collection. Display of 77 works which together chart the major movements in postwar American and European art. Organised chronologically, the show at the Museum of Fine Arts includes works by Calder, Stella and Bayu, while the Contemporary Arts Museum features artists of the 1980s and 1990s, including Basquiat, Cragg, Lichtenstein and Sherman; to May 2

## OPERA

Houston Grand Opera, Wortham Center  
Tel: 1-713-227 2787  
www.hgo.com  
Resurrection: world premiere of Tod Machover's new opera set in Tzarist Russia, with a libretto by Laura Harrington. Patrick Summers conducts a staging by Brahman Murray, with designs by Sirion Hight; May 1, 4

## LAUSANNE

**OPERA**  
Opéra de Lausanne, Théâtre Municipal  
Tel: 41-21-310 1600  
The Rake's Progress: by Stravinsky. New production. André Engel directs a staging by Dominique Meyer, conducted by Jonathan Darlington; May 2, 5

## LONDON

**CONCERTS**  
Barbican Hall  
Tel: 44-171-638 8891  
London Symphony Orchestra:

conducted by Christoph Eschenbach in works by Bruch and Mahler, with violin soloist Midori; May 5  
Orchestre Philharmonique de Strasbourg: conducted by Jan Latham-Koenig in the world premiere of a new work by Renaud Gagneux, and in works by Poulenc, Franck, Vaughan Williams and Janáček, with piano soloist Pascal Rogé; May 4

Queen Elizabeth Hall  
Tel: 44-171-960 4242  
London Sinfonietta: conducted by Diego Masson in a celebration of Duke Ellington, comprising newly commissioned works by six composers, including Simon Bainbridge and Gavin Bryars; May 1

**EXHIBITIONS**  
Barbican Art Gallery  
Tel: 44-171-638 8891  
New Art for a New Era: Malevich's Vision of the Russian Avant-Garde. 84 paintings and 48 works on paper on loan from the State Russian Museum, St. Petersburg; from Apr 30 to Jun 27

Queen's Gallery  
Tel: 44-171-939 1377  
The King's Head: organised to coincide with the 350th anniversary of the regicide, this biographical exhibition brings together images of Charles I from all stages of his life; to May 3

**OPERA**  
English National Opera, London Coliseum  
Tel: 44-171-632 8800

Semele: by Handel. Rosemary Joshua sings the title role in Robert Carsen's new production, conducted by Harry Bicket; Apr 30; May 5

Sadler's Wells  
Tel: 44-171-863 8000  
The Royal Opera: Paul Bunyan, by Benjamin Britten. Staging by Francesca Zambello, conducted by Richard Hickox; Apr 30

## MUNICH

**CONCERTS**  
Philharmonie Gasteig  
Tel: 49-89-5481 8181  
Munich Philharmonic Orchestra: conducted by Gerd Albrecht in works by Sibelius and Allan Pettersson; Apr 30

## NAPLES

**OPERA**  
Teatro di San Carlo  
Tel: 39-081-797 2331  
Il Barbiere di Siviglia: by Rossini. Gabriele Ferro conducts a staging by Filippo Crivelli, with a cast led by Leo Nucci; Apr 30; May 2, 4

## PARIS

**OPERA**  
Opéra National de Paris, Opéra Bastille  
Tel: 33-1-4473 1300  
www.opera-de-paris.fr  
Lohengrin: by Wagner. Conducted by Mark Elder in a staging by Robert Carsen, with designs by Paul Steinberg; May 2, 5  
Wozzeck: by Berg. Conducted

by Jeffrey Tate in a new staging by Pierre Strasser; May 3

Opéra National de Paris, Palais Garnier  
Tel: 33-1-4343 9696  
Platée: by Jean-Philippe Rameau. Conducted by Marc Minkowski in a staging by Laurent Pelly; Apr 30; May 2, 3, 4

## ROME

**EXHIBITION**  
Palazzo delle Esposizioni  
Tel: 39-06-474 5903  
Agardi: The Other Face of the Baroque. First major exhibition devoted to Bernini's great rival; to Apr 30

## TV AND RADIO

**WORLD SERVICE**  
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHz (463m)

**EUROPEAN CABLE AND SATELLITE BUSINESS TV**  
CNN International  
Monday to Friday, GMT:  
06.30: Moneyline with Lou Dobbs  
13.30: Business Asia  
19.30: World Business Today  
22.00: World Business Today Update

**Business/Market Reports:**  
05.07; 06.07; 07.07; 08.20; 09.20; 10.20; 11.20; 11.32; 12.20; 13.20; 14.20.

At 08.20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.





PHILIP STEPHENS

## Jumping tracks

In the two years since Labour came to power, Tony Blair has changed the arguments in British politics

What's going on? First Tony Blair (the one they used to call Bambi) borrows a flak jacket from Margaret Thatcher (the one who told George Bush not to wobble over Iraq) to lead Nato's war against Slobodan Milosevic. Then William Hague, heir to the Thatcherite mantle, disowns her legacy to make the Conservative party's peace with big government. The Lady, we are told, is not amused. The nation, unsurprisingly, is confused.

Politics sometimes conspires to confound us. But what has been happening lately in Britain seems positively bewildering. Sure, we knew that, tracing the footsteps of the now Lady Thatcher, Mr Blair would stand alongside Bill Clinton in any confrontation with Serbia. We did not guess that, once the bombers were in the air, he would step so far out in front of his friend in the White House.

As for Mr Hague, he had been saying for some time that the Conservatives must revisit the policies that handed Mr Blair's New Labour its crushing election victory in May 1997. Who would have guessed, though, that he would commit a Tory government to roll forward rather than back the frontiers of the state?

Before the 1997 election, Mr Blair promised that during his first two years in 10 Downing Street he would spend no more of taxpayers' money than had been budgeted by the Conservatives. That period of self-restraint has come to an end, with new resources being poured into health and education. Now Mr Hague avows that, returned to power, his party would match the increases pound for pound. It's a funny old world, as the Lady once said.

Yet look closely at these role reversals and they are more explicable than they seem. Scratch a little deeper and they tell us something hugely important, and largely missed, about Mr Blair. Here is a politician dismissed by his critics as being in the thrall of opinion pollsters and focus groups. The truth, more often recognised by observers overseas than at home, is that his disdain for traditional tribal boundaries has changed the argument in British politics.

We can come back to Kosovo and that flak jacket in a moment. Let's consider first why the Conservatives feel obliged to admit that, for all its virtues, the market cannot substitute for state-funded education and health. It is tempting to conclude that the hapless Mr Hague has simply blundered again. But we should be generous. Perhaps he has finally grasped what has been happening.

Before the last election there was only one

conversation that mattered in the nation's political salons: the size of the state. More accurately, it was about how far and how fast the public sector should be shrunk. Better health, high-quality education, generous pension provision? We could forget the old statist models. The markets would do the job.

True, Mrs Thatcher and John Major, her successor, had not had as much success as they would have liked during 18 years in power. For all the rhetorical bluster from the high priests of liberal markets, the Conservatives found themselves running to stand still. By 1997, the share of national income taken by the state was just below 40 per cent – not much changed from the ratio they had inherited in 1979.

That, we were told, was not the point. Much more important, the political right had won the argument. We were in the age of global competition. The markets were master. There was

nothing for governments to do but cut taxes. And then cut them again.

Politicians and intellectuals – some from the centre-left as well as from the right – fell over each other in an unseemly reverse auction. Why not a spending ratio of 30 per cent, said one camp. Tiniid said another – 25 per cent was the maximum the state must presume to spend on behalf of its citizens. Why stop there, chimed in the real zealots. Vast swathes of the public sector were ripe for privatisation.

And now? The silence is broken only by Mr Hague's Damascene conversion. Sure, Mr Blair has not run off in the direction of the old socialist left. Like Mr Clinton, he preaches the gospel of effective rather than big government. And the Blair administration's approach to macroeconomic policy has been as orthodox as they come. There, as the prime minister always said it would, the Thatcherite legacy has been safeguarded.

But even as he has appropriated the mantra of economic stability, Mr Blair has rehabilitated the role of the state. Look at the Treasury's public spending projections for the next few years. The trend is upwards – not by much in terms of percentage points, but up just the same.

And what reaction have we heard from all those once so eager to cut government down to size? Not a peep. Who cares any longer whether the public spending ratio creeps above 40 per cent? Who is pressing the case for a reduction even, say, to 35 per cent? No-one that I know.

This change is far more profound than the dry statistics imply. What it tells us is that Mr Blair has routed the disciples of minimalist government. The nation has been persuaded that market economics can co-exist with an activist state. As the prime minister said in Chicago last week, we may have found out that big government does not work. But no government works even less. The argument now is not about cutting the state down to size, but about how best it can provide what all agree to be public goods.

Mr Hague, we must assume, was trying to grasp this fundamental shift in the rules of the game when he offered his pledges on health and education spending. Tax cuts have lost their magic. The voters have signed up to Mr Blair's prospectus of social cohesion alongside economic stability.

The Tory leader's mistake in all this was to assume that his party could simply abandon the old Thatcherite truths without preparation, explanation or context. His colleagues were as startled by the about-turn as everyone else. Worse, he seemed ready to recant as soon as she reached for her handbag. Mr Hague has never quite understood that tactical shifts have to be embedded in a strategy. He shouts to be heard. Yet for all the clumsiness, he did hit upon something others have missed.

A more general misreading of Mr Blair accounts for the widespread puzzle over his stance on Kosovo. As in domestic politics so in foreign policy, the prime minister has stepped outside the old trammels of right and left. Ask him about that flak jacket and the response is brisk. Nato's war is being fought in a just and vital cause. It must be prosecuted and won for that reason. It is that simple.

To Mr Blair's mind, to say so loudly – and to argue for a rapid build-up of Nato ground forces around Kosovo – makes no particular statement as to where one stands in the political spectrum. And though he is discreet about his conversations with her, if the prime minister has determined that Europe must be ready to fight for its values, so be it. Here again Mr Blair tramples on a once-sacred variety. It used to be that conviction politicians stood far apart either side of the line dividing left from right. The right would fight with passion for its cause. So, too, would the left. Between them were the somewhat ignominious figures who huddled in the safety of the middle ground. That's what we thought. Now we know differently. The centre has staked its claim to the politics of conviction.

## LETTERS TO THE EDITOR

### Catch-up time for US forecasters

From Mr Harry L. Freeman

Sir, The first quarter estimate for US economic growth (GDP) will be released tomorrow. Will the economic forecasters get it right or will they miss again? Your newspaper reports on the US economy well and fully, have you not noticed the gap?

The gross domestic product revised figure for the US economy for the last quarter of 1998 was 6 per cent – yet the median forecasts at the beginning of 1998 were predicting around a 3 per cent gain. This is a recurring pattern. The 50 economists routinely surveyed by the Wall Street Journal forecast an annual growth rate of 2.3 per cent for the five years 1994 to 1998. The actual result was 3.4 per cent – about 50 per cent higher.

Forecasts for the first quarter of 1999 range from 2 per cent to 3.5 per cent, when most of the already published indicators suggest something closer to the

fourth quarter of 1998, which was 6 per cent.

Why are professional economists almost uniformly making such bad forecasts? I believe the most important reason is that most are drawing on data developed and published from an industrial era now past. They see the US through the prism of a traditional industrial economy, where factories dominate production and employment data, and where durable goods orders and factory capacity utilisation and similar measures are the guideposts.

But the reality is starkly different. The service sector accounts for nearly 80 per cent of total private employment and 77 per cent of US GDP. It created 2.5m jobs last year and generated a services trade surplus of more than \$9bn.

Yet what do the economic forecasters look at in making their forecasts? One popular indicator is the National Association of Purchasing

Managers' manufacturing index. Another is the index of Leading Economic Indicators issued by The Conference Board, which is dominated by manufacturing indices such as new orders for durable goods. Both predicted an economic slowdown last year. The reality was different.

To improve our forecasting, we must construct new statistical measures. These have to measure the whole economy including the dominant sector – services – that provides 80 per cent of our economic activity. Services are diverse and difficult to measure; no excuse.

These new statistical measures may look very different from traditional measures. But, until they are in place, our forecasts will continue to miss the mark. Catch-up time.

Harry L. Freeman, The Mark Twain Institute, 4706 Dorset Avenue, Chevy Chase, MD 20815 US

### Argentina's private medical insurance

From Prof Ira Sohn

Sir, If the past is any guide to the future, the International Monetary Fund's new scheme agreed last week is misguided ("IMF's new contagion credit line would any country really use it?", April 26). It will lead to greater – not fewer – inflations of public money, and to more – not less – political interference in the management of emerging market economies.

Healthy economies, like healthy bodies that have been properly vaccinated against certain diseases, will rarely submit to contagion from the outside. Largely because of its weak banking system until 1996, the Argentine economy was severely affected by the Mexican crisis. Brazil succumbed to a devaluation after last year's

meltdown in Russia because of its inability and/or unwillingness to confront in a convincing way its bulging twin deficits.

However, Argentina – through aggressive bank privatisations and mergers, along with increased foreign participation in the sector that collectively strengthened the banking system since 1985 – has had both a higher current account deficit and higher foreign reserves over the year, despite the damage Brazil's devaluation has inflicted on the real economy.

In addition to "vaccinating" its banking system, Argentina has bought (for \$20m a year) private "medical insurance" – a \$7bn line of credit with some 15 private sector banks in the event of a banking crisis –

that was contracted voluntarily with the banks.

Instead of strongly encouraging emerging market countries to vaccinate their economies with private medical insurance, the IMF is promising more public funds with more political interference in exchange for "good" policies, however expeditiously defined.

If today Russia and Brazil can be considered the IMF's "poster boys", then "good" policies, like beauty, will certainly be in the eyes of the beholder.

Ira Sohn, professor of finance, School of Business, Department of Economics and Finance, Montclair State University, 6 Upper Montclair, New Jersey 07043, US

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers worldwide. Letters may be sent to: 44 171 873 5838 (ext 101), e-mail: letters@ft.com. Published letters are also available on the FT web site, <http://www.ft.com>. Translation may be available for letters written in the main international languages. Fax 0171 873 5838. Letters should be typed and not hand written.

## TRAVELLER II



Automatic  
Alarm  
Double time zone

GP  
**GIRARD-PERREGAUX**

MANUFACTURE DEPUIS 1791

For further information:

GIRARD-PERREGAUX  
1, place Girardet • CH-2301 Le Chaux-de-Fonds  
Tel: (+41)32 911 33 33 • Fax: (+41)32 913 04 80

E-mail: [com@girard-perregaux.ch](mailto:com@girard-perregaux.ch)  
<http://www.girard-perregaux.ch>



## Learning the hard way

Tony Barber examines how the European Central Bank is trying to re-establish its reputation in currency markets after slip-ups by its president Wim Duisenberg

For Wim Duisenberg, the president of the European Central Bank, April has been the cruellest month. Four months since the bank took on responsibility for monetary policy in 11 European countries, he and other members of the ECB's governing council have had a harsh lesson.

In the past few days, ECB officials have been forced into a barrage of statements aimed at reassuring currency markets, and stemming the slide of the euro. They have tried to reverse the widespread impression that the ECB either did not care about the fall, or did not know its own mind.

Mr Duisenberg is mainly responsible for the uncertainty that emerged after the ECB's decisive 0.5 percentage point cut in the main eurozone interest rate on April 8. That day, he appeared to rule out any further change for a long time, saying: "This is it." Later, he seemed to modify his stance, saying that rates were on hold for the time being. The market's confusion was exacerbated when he went on to say he was not worried by the euro's decline, and later referred to an ECB policy of "benign neglect".

Partly as a result of these remarks, the euro steadily fell on currency markets. Between April 18 to April 23, the euro repeatedly touched new lows against the dollar, finally sinking to \$1.0561, more than 11 per cent below its peak on January 4 of \$1.1877.

By last weekend, the ECB realised it was time to change tack. This week's meetings in Washington of finance ministers and central bank governors from the Group of Seven leading industrialised countries provided the ideal opportunity to counter-attack.

On Monday and Tuesday, Mr Duisenberg, his colleagues on the ECB's 17-member Governing Council and various EU officials such as the commissioner for monetary affairs, Yves Thibault de Siguy, went forth in unison with the message that the euro had fallen far enough.

Chasteningly for Mr Duis-



Cutting remarks: Wim Duisenberg (left) and Hans Tietmeyer

enberg, the ECB council member who took the most prominent role in this offensive was Hans Tietmeyer, president of the German Bundesbank. Mr Tietmeyer did so by explicitly renouncing Mr Duisenberg's earlier reference to "neglect" – benign or otherwise.

He could almost have been addressing Mr Duisenberg rather than the world at large when he said in Washington: "A policy of neglect would be inappropriate, and I would like to add that, all in all, a significant further change of the euro's level would not be appropriate."

Mr Tietmeyer's remarks

bel discipline is essential because markets can be troubled by risky or heterogeneous or contradictory statements.

The ECB message this week has been threefold. First, it does not have an explicit exchange rate target for the euro. Second, it is concerned with the level of the euro. Third, the current rate of roughly \$1.06 seems appropriate, although the euro could well rise in the future.

Mr Duisenberg can at least take heart from the words of other central bankers, who say in private that it was better for him to learn the

**'Verbal discipline is essential because markets can be troubled by risky or heterogeneous or contradictory statements'**

are treated with respect because of an aura of authority that has surrounded the Bundesbank for 50 years. He has gained almost as much respect as Alan Greenspan, chairman of the US Federal Reserve, who is known for saying a lot, but in a highly enigmatic manner.

Mr Duisenberg is now learning that central bankers have to watch their words extremely carefully. As Jean-Claude Trichet, governor of the Bank of France, put it on Wednesday: "Ver-

bal discipline is essential because markets can be troubled by risky or heterogeneous or contradictory statements."

need to deliver a single, coherent message in a period of relative currency stability. The effect of his various remarks could have been more damaging during a period of market turmoil.

Furthermore, he has not been solely responsible for any confusion. Mr Trichet said this week that there was "not even the width of a cigarette paper" between council members. Yet Mr Duisenberg said on April 8 that the rate cut had not been approved by all mem-

bers with equal enthusiasm. Finally, ECB officials insist that Mr Duisenberg's reference to "benign neglect" was misinterpreted. He was merely trying to say was that the bank did not pursue a specific exchange rate policy. Its primary task, set out in the EU's Maastricht Treaty, is to control inflation.

Fortunately for the 290m inhabitants of the euro-zone, the economic damage is minimal, and the experiment of European monetary union appears in no immediate danger. Nor can the decline of the euro be attributed solely to remarks made by Mr Duisenberg, or other ECB council members.

The ECB will now aim to reinforce the one message on which it has proved consistent and convincing. This is the argument that it cannot solve solely through monetary policy the deep-rooted structural problems causing high unemployment in the eurozone.

Mr Duisenberg has insisted that euro-zone governments need to reform their tax and social security systems, liberalise labour and product markets, and improve fiscal discipline. Monetary policy can set a helpful framework, but then responsibility lies with national governments.

Ironically, the fall of the euro has if anything been a help to the eurozone economy throughout the last four months. It has helped to ease some of the economic difficulties in countries such as Germany by providing a welcome boost for exports at a time of weakness.

However, the ECB's effort to call a halt to the slide this week shows that it believes the eurozone economies can have too much of a good thing. Prolonged weakness in the euro could lead to inflationary pressures from more expensive imports, undermining the bank's central task.

A further slide could also have amounted to a vote of no confidence in the ECB from the currency markets. As a young central bank keen to inherit the Bundesbank's mantle of authority and judgment, the ECB will be trying hard to learn the lessons of a cruel April.



## FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Friday April 30 1999

## Washington's Chinese shambles

US foreign policy is in confusion. That has been shown, over the past few days, to be especially true of the Clinton administration's attitude to China.

It is wasting a priceless and yet fragile opportunity to bring Beijing into the international community as a member of the World Trade Organisation. This could transform the unpredictable relationship between the world's most powerful and most populous countries. But a haphazard policy line in Washington risks losing the prize.

Washington's response to the challenge offered by Zhu Rongji, China's premier on his visit there early this month, looked incoherent by comparison with Beijing's policy towards the US.

Now the administration's approval of the sale of early warning radars to Taiwan risks further confusing Washington's message. Approval is an understandable response to China's unacceptable missile build-up near the island.

Yet the timing is bad. It will harden anti-western opinion in Beijing less than a month after the Mr Zhu made a series of remarkable trade concessions to pave the way for WTO membership.

China must not be allowed to bully its way into the international community, which is why its willingness to open its markets must be cherished. The US is right to stand up to Chinese

encroachment on Taiwan.

But the administration should draw a clear distinction between the trade and security aspects of its diplomacy. If it had accepted China's WTO offer, it would have gone a fair way towards doing that. This would have left it better placed to address the Chinese missile build-up - ideally by encouraging a halt to the arms race as a sign of good faith, rather than rushing into the approval in principle of the export of sensitive technology to Taipei.

This whole story illustrates the risk that Washington will stumble towards a tougher policy on China with no sense of strategy, as the public and Congress agonise over the latest allegations of Chinese espionage at US nuclear facilities. In response, China's march towards the WTO could falter.

To bring China into the WTO - a substantial prize - Washington needs to manage the tensions between its foreign policy and trade objectives. Only by doing that will it be able to capitalise on apparent greater readiness in Congress to back a deal.

It is now up to the administration to realise that a foreign policy for China must consist of more than a handshake for a visiting premier. If Washington fails to do that, it will fumble the relationship and miss the chance to bring China into the international mainstream.

## Balkan mission

Hopes for an early end to the Kosovo conflict are now focused on Russia, whose ex-premier Victor Chernomyrdin is back in Belgrade to see Slobodan Milosevic. A symbol of this is the visit to Moscow yesterday by Kofi Annan, the United Nations secretary general.

But Boris Yeltsin's Balkan envoy will bring peace no nearer unless he can make a better stab at convincing the Yugoslav leader that Nato really means what it says. The allies rightly insist that only a total pull-out of Serb forces from Kosovo, and their replacement by foreign troops, including Nato forces, will end the ethnic Albanian refugees back.

The prospect of Russian mediation is welcome to many in Nato now that last weekend's Washington summit is over. There, the allies sternly promised to intensify their air campaign and to turn Serbia's oil supply tap off. It was essential to demonstrate their determination.

These measures may suffice to bring Mr Milosevic to his knees. But the past few days have seen Nato bombs hit more civilians and a house in Bulgaria, and have highlighted the problems in mounting an oil blockade. The US Congress has also shown it wants to police any moves by President Clinton to expand the US military role.

The real reason why Russian

involvement should be welcomed is that only Moscow can bring home to Mr Milosevic the reality of his isolation. He is losing support at home, as shown by the sacking of Vuk Draskovic, the dissident-turned-deputy premier. The censoring of a BBC interview with Vuk Obradovic, an ex-general who still has links to the Yugoslav military, also suggests growing doubts. But nothing will persuade the ordinary Serb of the failure of Milosevic more than for the largest of Slav powers to give him the thumbs down.

Publicly, Russia is still a long way from siding with Nato. Yesterday's decision by Moscow to upgrade its shorter range nuclear weapons suggests pique both at the bombing campaign, and at Nato's maintenance of a strong nuclear core to its long-term strategic concept (as agreed in Washington). But it may be just a bluff. This week's talks suggest Russia is moving towards Nato positions on Kosovo, though Mr Chernomyrdin still argues for only a partial Serb troop withdrawal from the territory, and for an essentially non-Nato peace-keeping force.

The gap between Nato and Belgrade is still wide. Given all he has heard from Nato leaders and Mr Annan in recent days, Mr Chernomyrdin should realise that he can only close it by pushing Serbia to recognise Nato's determination.

## Funding Russia

Desperate times call for desperate measures. The International Monetary Fund's decision to resume lending to Russia certainly fits this adage.

The economic case for new IMF loans is extremely limited. Prime minister Yevgeny Primakov's government has shown no interest in sorting out Russia's economic ills. The IMF says its loans are conditional on fiscal, banking, and structural reform, with no cash before the necessary legislation is passed. However, it is hard to imagine that there will be any serious reform effort.

Rather, the rationale for this deal is that it would be unfortunate timing to cut Russia off from the international financial club during the middle of a Nato war with Yugoslavia.

Russia has already defaulted on its domestic debt. The government is desperate to open negotiations to reschedule its Paris Club debt. Without new funds, Russia will also default on its IMF repayments this year. This will prevent it from rescheduling other loans.

The west hopes that Russia will, in time, be part of the solution in the Balkans. If the G7 or the Nato countries want to bail Russia out - to keep the government from turning sour - they should do so openly. It is unfortunate that this has become the IMF's job. Equally, with parliamentary and presidential elections on the horizon, political

loans can perhaps be justified to prop up the government and support free and fair elections. But again, this should not be the IMF's responsibility.

One thing that new loans will not disguise is the fact that the IMF has failed in Russia. At least the Fund is not going to donate new money. The loans will simply cover Russia's repayments. The money will never leave Washington.

This is a good thing. Billions of IMF dollars have simply been wasted in Russia, or leaked out of the country. Even the central bank has admitted under-the-counter activities. The IMF wants an explanation of what has happened to the \$19bn it has already lent to Russia. It will make interesting reading.

Avoiding an IMF default will save embarrassment, both in Moscow and Washington. An IMF default is desperate to open negotiations to reschedule World Bank debt to renewed World Bank door to renewed World Bank lending. Together with a rising oil price, it will ease the government's fiscal difficulties.

However, Russia's transition has faltered. The present government has neither the inclination nor the wherewithal to get the economy back on track. Perhaps if there is a new president and a reforming administration after the elections, things will improve. In the meantime, the IMF's role, and the line between economics and diplomacy, have been muddled.

"Always Coca-Cola" has been the advertising slogan for the world's favourite soft drink for more than seven years. It is a message that has captured the attention of competition regulators around the world as the Atlanta-based group rapidly gulps down smaller rivals.

Coke already has more than half the global soft drink market - compared with 20 per cent for PepsiCo, its main competitor. Now, regulators are becoming increasingly agitated about Coke's plans to acquire the non-US drinks interests of Cadbury Schweppes, number three worldwide, which make Dr Pepper, Seven-Up and Canada Dry.

The latest watchdog to raise objections to Coke's plans is Karel Van Miert, the European Union's competition commissioner. On Wednesday he threatened the US group with heavy fines for failing to seek EU regulatory approval for its \$1.85bn acquisition of the Cadbury drinks business.

The deal has already raised objections from regulators in Australia, Belgium and Germany and is under close scrutiny in other leading markets, including Spain and Mexico. Meanwhile, Coke's plans to buy Orangina from Pernod Ricard of France for FF55bn (\$500m) have been blocked by the French authorities.

In both cases, the companies selling to Coke have strong brands and good market share in some countries. Schweppes is number two in Australia and South Africa, for example, while Orangina is France's number two soft drink.

Regulators may succeed in extracting concessions from Coke and even block its ambitions in countries where its dominance is already overwhelming. But most analysts believe the trend towards a Coke-Pepsi duopoly in the global soft drinks business is unstoppable.

"There just isn't room for more than two distribution networks worldwide," says David Lang of Investor Henderson Crosthwaite in London. "The investment needed is beyond all but the largest companies."

Smaller beverage companies are finding it increasingly difficult to grow in the shadow of the two cola giants. Only those prepared to invest enormous sums in distribution and marketing can hope to do battle with Coke and Pepsi.

These are tough times for Douglas Ivester, chairman of Coca-Cola since the death of Roberto Goizueta in 1997. He took the helm of the soft drinks group just as the Asian crisis was sweeping through global markets.

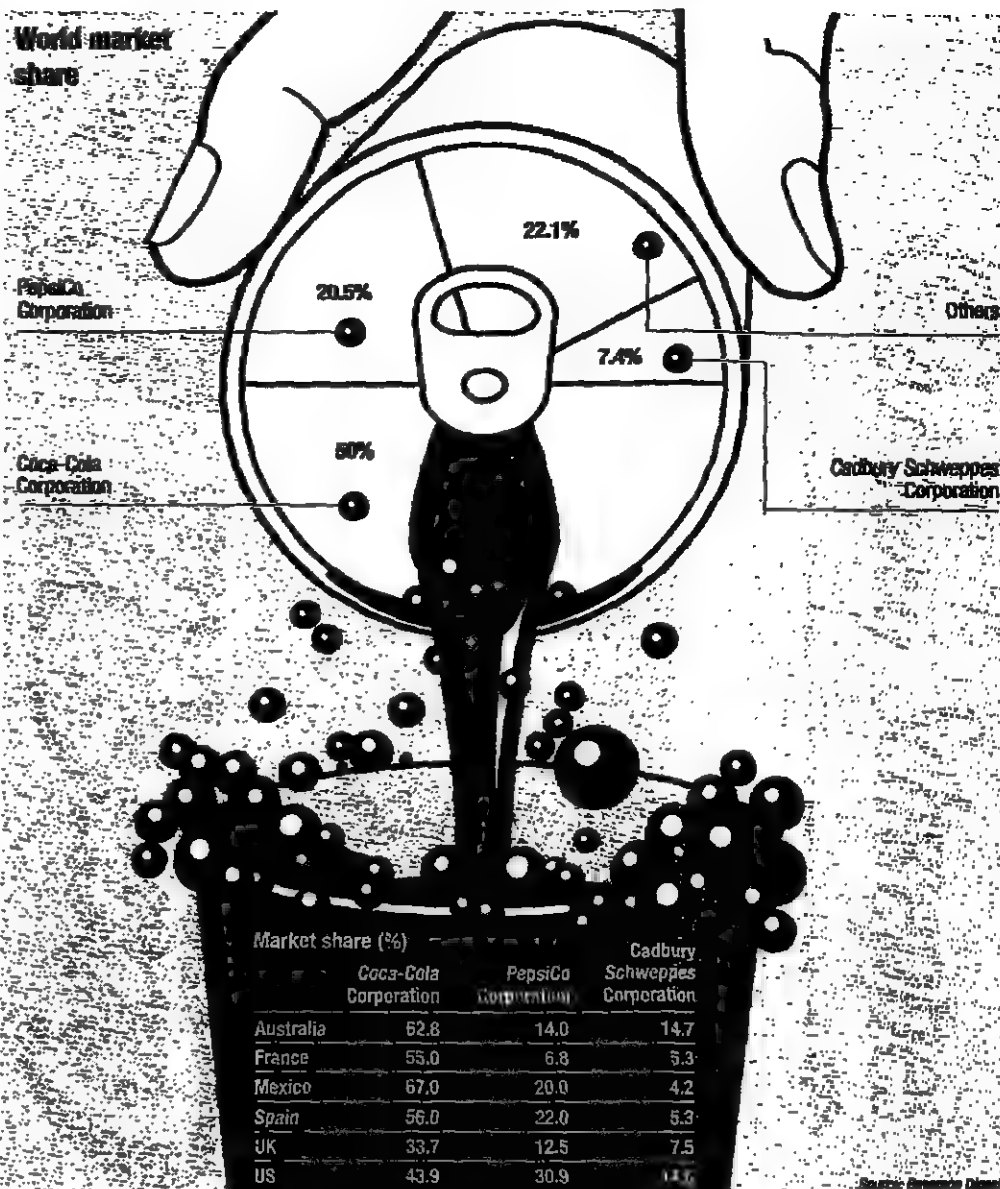
He has had to battle shrinking sales, anaemic stock growth, plunging profits, and now, the derailment of plans to acquire Cadbury Schweppes in at least two countries.

Instead of reporting the usual double-digit returns to shareholders, Mr Ivester has spent the past year-and-a-half promising that business will bounce back - just like before.

## COMMENT &amp; ANALYSIS

## Unquenchable thirst

Regulators are worried about Coca-Cola's global expansion, but there is little they can do about it, say John Willman and Betty Liu



Distribution is particularly important for soft drinks, as for other impulse products. The late Roberto Goizueta, Coca-Cola's chairman and chief executive between 1981 and 1997, was fond of quoting his predecessors' goal of always having Coke within "arm's reach of desire".

That meant ensuring supplies within five minutes of most consumers, preferably in chilled storage for immediate consumption. This is turn required bottling plants in each market, and distribution systems to deliver the products to supermarkets, convenience stores, petrol service stations, fast-food chains, bars and vending machines. A hefty marketing budget was also needed.

including special offers for supermarkets in return for premium shelf positions. Generous bulk supply terms persuaded fast-food chains to agree exclusive deals to sell only one company's soft drinks through their dispensers.

Coke has built up its global distribution with a network of anchor bottlers - independent bottling companies covering particular markets. They handle the distribution and local marketing with support from Atlanta, which also takes a large stake in the companies to protect its interests.

In the former communist bloc countries of central and eastern Europe, for instance, Coke invested more than \$500m over

three years in basic infrastructure such as bottling plants and a fleet of trucks. It has now handed these assets to Coca-Cola Beverages, a London-listed company that expects to spend more than \$100m annually for the next few years on chill cabinets, vending machines and dispensers in bars and restaurants.

"Coca-Cola has been strong operationally and was ahead of the game in developing the anchor bottling system," says Gary Hemphill of Beverage Marketing, a New York consultancy. "But now Pepsi is headed in the same direction."

The world's number two spun off its US bottling interests last month as the Pepsi Bottling

Group. It has also taken a large stake in Whitman, its largest independent bottler, which covers the mid-West, in return for eastern European franchises.

Against such resources, European soft drinks groups such as Cadbury Schweppes and Pernod Ricard look small. Although Cadbury is the third largest beverage group globally, with 7.4 per cent of sales, much of that is because of its strength in the US, where its Dr Pepper/Seven-Up subsidiary has 15 per cent of the market. Outside the US, Cadbury's market share is closer to 3 per cent.

Late last year, Cadbury announced the sale of its non-US business to Coke - the cause of regulatory disquiet in recent weeks. "These brands are famous and profitable," says John Sunderland, Cadbury's chief executive. "But they can be more successfully grown outside the US in the Coca-Cola system."

For Coke, distributing more brands through its system is likely to be highly profitable, particularly where they do not compete directly with its own products. It also believes there is growth potential for Dr Pepper outside the US - and unlike Cadbury - it is prepared to invest in its expansion.

Pepsi was not prepared to make an offer when approached by Cadbury, but it has done its best to get competition authorities to block the deal. PepsiCo has refocused on its drinks business since spinning off its restaurant division in 1997, and has been increasingly turning to regulators where it sees Coke using unfair tactics. Its opposition to the Orangina deal, for example, contributed to the French veto.

This week Pepsi welcomed Mr Van Miert's admonition and the actions of regulators who have blocked the Cadbury deal. But the UK group remains determined to dispose of the Schweppes business and says it and Coke are prepared to negotiate over competition concerns.

They may be successful. But if a clean sale cannot be completed, the likelihood is that Cadbury will still find some way of handing Schweppes to Coke through a franchise arrangement.

"Coca-Cola has put together an extraordinarily efficient distribution system in Europe which other people can't really match," says George Thompson, analyst at Prudential Securities in New York. "If I'm Cadbury or Pernod, I'd be very interested in giving distribution rights to Coke."

## Hoping things will go better

These are tough times for Douglas Ivester, chairman of Coca-Cola since the death of Roberto Goizueta in 1997. He took the helm of the soft drinks group just as the Asian crisis was sweeping through global markets.

He has had to battle shrinking sales, anaemic stock growth, plunging profits, and now, the derailment of plans to acquire Cadbury Schweppes in at least two countries.

Instead of reporting the usual double-digit returns to shareholders, Mr Ivester has spent the past year-and-a-half promising that business will bounce back - just like before.

But memories of Coca-Cola's past performance are deeply unflattering to Mr Ivester's record to date. Until his death from lung cancer in October 1997, the genial, Cuban-born Mr Goizueta was raking in record profits, increasing worldwide sales at a rate of 7 to 8 per cent a year and banking in the glow of having created more than \$100m of shareholder value during his 16-year tenure at the head of the world's biggest soft-drinks concern.

Under Mr Goizueta, Coca-Cola was twice crowned "America's Most Admired Company" by Fortune Magazine. To be fair, Mr Ivester's troubles are also dogging other multinationals with big consumer operations in emerging markets. The currency devaluations and recessions in Latin America and Asia have sapped demand for Coke.

As for the links in the \$1.85bn buyout of Cadbury's Schweppes business in 130 countries, analysts say they always expected the deal would face regulatory hurdles. "If you go in and ask for the world and only get half, you're still very satisfied," says George Thompson, beverage analyst at Prudential Securities.

Still, Coca-Cola's troubles have only prolonged the nagging questioning of Mr Ivester's leadership. Although Mr Ivester was Mr Goizueta's confidante for years, he was always the num-

ber-crunching half of the team, building up a successful anchor bottling system while Mr Goizueta concentrated on branding and marketing.

"Goizueta was a Yale-trained engineer, a person who was very good with conceptualisation. Ivester is more from a financial and accounting background, heavy on the logic and numbers," says Michael Ballis, president of Beverage Marketing Corp, a consulting and research firm.

Their personalities were also starkly different. Where Mr Goizueta was a statesman, an ambassador for the soft drinks industry, Mr Ivester is regarded as a "more in-your-face, rallying-

the-troops" kind of leader, according to Skip Carpenter, analyst at Donaldson, Lufkin & Jenrette.

"Everyone's a bit critical of Doug now... but when Goizueta came on board, he wasn't a real ace in the beginning, either. He made some mistakes, too," Mr Ballis says.

How much Mr Ivester's style has influenced company strategy remains unclear, although some analysts note that Coca-Cola has been particularly aggressive in buying up competitors since Ivester took over. The real test is likely to come when emerging market economies begin to recover, and Mr Ivester can reawaken their thirst for Coke.

## OBSERVER

## Opera buffa at the bank

Sanca Commerciale Italiana's Milan headquarters stand next to the world's most famous opera house. So it's little wonder that, whatever other problems the bank might be prone to, there's no shortage of drama within its walls.

And the best La Scala tradition was much in evidence on Wednesday, when a nine hour annual shareholders meeting was followed by a board meeting lasting deep into the night.

At the heart of the saga is Mediobanca, the grand old Milan institution that's used to pulling most of the strings in Italian finance. For months Mediobanca's 92-year old boss Enrico Cuccia and his faithful associate Vincenzo Maranghi have tried to marry BCI to Banca di Roma, which is run by one of their pals.

But BCI's two joint chief executives, Pierfrancesco Savio and Alberto Abelli, have preferred to talk to UniCredit, another Milan bank, about a merger plenty of people think would make more economic sense.

On Wednesday they saw off an attempt to throw them off the board, and in the end an armistice was reached in the small hours of the night. BCI's now set to consider an altered merger proposal from UniCredit as well as an offer from Banca

Intesa, another Milanese outfit which appears to have won Mediobanca's favour.

But the last word may well come from elsewhere. Antonio Fazio, the governor of the Bank of Italy, has already blocked one big merger this week. Could he do the same for UniCredit's bid, since BCI's board isn't exactly singing in perfect harmony?

## Cyber quaint

Say the word "technology", follow up with "entrepreneur", and most people are likely to think of West Coast characters with flowing hair, awesome stock options and questionable social skills.

But a few companies out there don't quite fit the mould. Take CMP Media, a high-tech media company that yesterday attracted a \$920m offer from the British group United News & Media.

The minds that thought up CMP didn't belong to techno-nerds in San Francisco but to an elderly couple in Long Island, Gerry and Lilo Leeds, who started the company as a travel industry publishing house and gradually moved into the computer world.

According to Burn Rate, a memoir of the Internet's early years by journalist Michael Wolff, in the mid-90s CMP staff were wary of making the trip into Manhattan. The journey was accompanied by plenty of calls to check on garages and traffic,

and when the executives finally emerged in the Big Apple they were "sweating and anxious".

Later, the mere mention of New York made the eyes of Michael Leeds, the son of CMP's founders, narrow with suspicion.

That helps explain why people call the Internet a global village.

## Mamma mia

It's never less than amazing how momentous events in Swedish business life can be summed up by titles of Abba songs.

This week, the chart-topper that hits the spot is "The winner takes it all", since what was once a cosy corporate world has seen the sort of bust-up unimaginable in the days when the fantastic foursome wowed the world.

One side is Marcus Wallenberg, chief executive of Investor, the giant holding company that's long called the shots in Swedish industry. Yesterday, he slammed Volvo, perhaps the country's best-known industrial group, for talking a hostile stake in Scania, the heavy truck company investor controls.

The Wallenbergs' anger is particularly acute because the man steering Volvo is Lef Johansson, a one-time chief executive of Electrolux, the white goods company in which investor holds a hefty stake. "This has come as a horrible surprise," whispered one investor confidant. All the more so,

perhaps, because it isn't usual for Sweden's industrial groups to defy the Wallenbergs' wishes.

So the Abba song of the month definitely isn't "Knowing you, knowing me".

## Prodi prepares

So where does Romano Prodi go when he wants to talk about how to put the pieces back together in the Balkans once the Kosovo war is over?

You might think that the European Commission's chief-in-waiting wanders off to his future place of work. But instead he's a couple of kilometres away at the Centre for European Policy Studies, an independent think-tank.

Prodi got in touch with the centre after it published a paper on "a system" for South-East Europe after the war. Earlier this week he was the centre of attention at a three hour-long brainstorm at CEPS that featured diplomats, industrialists and several commission officials.

Prodi was the first top international figure calling for an EU-led policy in the post-war Balkans. He's emphasised the region will be among his top priorities when he takes office. Meanwhile CEPS has cheerfully allowed its ideas to be re-christened the "Plan for Reconstruction, Openness, Development and Integration". You may find that the initials spell out someone's name.

## Financial Times

50 years ago

The newest dam Gas shareholders may feel that they have been the victims of the shabbiest of all the nationalised deals. On top of the unfair basis of compensation at Stock Exchange prices, they are given a stock with maturity dates so far distant in time, that their protective influence in a falling market may well be negligible.

Moreover, the technical arrangements of gas nationalisation are the least satisfactory of any so far inflicted upon investors. Similar behaviour by private financial interests would certainly not be tolerated in the City.

The place of gold The place of gold in the economy of the countries of the world is very much a subject of debate at the moment. In the latest copy of "U.S. News and World Report" there is an article which deals in a somewhat picturesque manner with the question why the gold standard is not yet making a comeback.

It points out that the whole world to-day owns \$38,000,000,000 of monetary gold, of which the United States has \$24,000,000,000, or far more than the rest of the world combined.



## THE LEX COLUMN

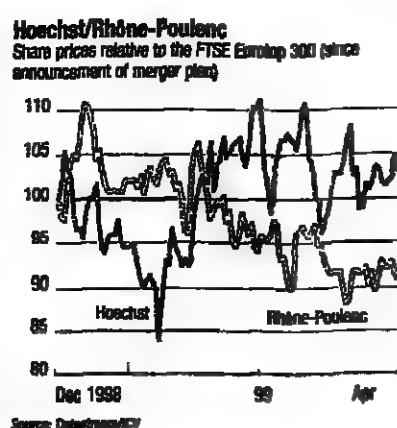
## Cloudy solution

Those now tempted to call the bottom of the chemical cycle should either lie down or take a look at some of Hoechst's results. Basic chemicals, Celanese, saw first quarter profits plunge 67 per cent; technical polymers slumped 43 per cent. In case investors somehow missed the point, the management said industrial businesses would stay under the cash for the year.

It is little wonder that Hoechst's largest shareholder has put a bomb under the company. A complex life-sciences merger with Rhone-Poulenc, due to happen over several years, should now be wrapped up by end-1999. This means Hoechst has to speed up the divestment of its chemical assets, valued by some at between \$8bn and \$10bn. The quickest way would be to bundle them together and spin them off to existing shareholders, who may not be grateful for equity in a rag-bag chemical holding company.

Some chemical assets could also conceivably be slipped into the life-sciences merger. That would risk complicating the divvying up of equity between Hoechst and Rhone-Poulenc.

The market is hardly taking the uncertainty in its stride. Hoechst shares trade on roughly 8 times forecast operating cashflows. That may seem harsh given the improvement in pharmaceuticals, where margins crept up to 19 per cent. But with so many question marks remaining about the shape of the merger, caution is warranted.



added a third to its customer base and posted a 236 per cent jump in quarterly revenues, well above expectations. But this growth is coming at a heavy cost. With the management yet again increasing investment, analysts now expect Amazon to lose around \$300m this year instead of \$120m, and \$280m in 2000 rather than \$60m. Ironically, most of the spending is not on sexy internet assets but on conventional warehouses.

Amazon's brand and loyal customers put it in a strong position but competition, given the net's low barriers to entry, could rapidly erode this. In that case, those huge profits will never materialise. The near-20 per cent drop in its stock this week suggests the first doubts about its business model are creeping in.

Amazon's brand and loyal customers put it in a strong position but competition, given the net's low barriers to entry, could rapidly erode this. In that case, those huge profits will never materialise. The near-20 per cent drop in its stock this week suggests the first doubts about its business model are creeping in.

## Asian restructuring

It had to happen sooner or later. Capital-starved Asian companies always needed to raise equity at some stage to repair their feeble balance sheets. Siam Commercial Bank's \$1.7bn equity issue may be misleadingly eye-catching. While this is in theory the largest issue by a non-Japanese Asian company since late 1997, only half actually goes to private investors, the rest being government-subscribed. Nonetheless, at least the recapitalisation of Asia is beginning.

It is no surprise this is happening now. Asia's equity markets have rallied by 25 per cent in dollar terms since January 1, helped by stabilising economies and lower interest rates. This is not an export-led recovery. Rather, reduced imports have trimmed trade deficits, steadying currencies and allowing interest rates to fall. This has opened a window for Asian companies to lure in underweight foreign equity investors - the paymasters of recapitalisation.

That Thailand is leading the charge is also no surprise. Having led the region into crisis, it has taken the quickest and most radical steps towards reform. Unlike Korea, where the government has been reluctant to force the debt-burdened chaebol conglomerates to restructure for fear of foreign takeover, Thailand is prepared to admit outside capital - even control. Its fleet-footedness looks astute since there is always the danger of another Asian market correction.

## Milosevic switches the focus as Moscow's envoy flies in

Yugoslav president praises Serb-Albanian 'agreement'

By Our International Staff

President Slobodan Milosevic of Yugoslavia yesterday sought to pre-empt an international peace settlement, arranged by Russia, by focusing attention on a purported agreement with Ibrahim Rugova, the ethnic Albanian leader believed to be under house arrest in Kosovo.

Serbian TV reported that Mr Milosevic had called an agreement made on Wednesday between Mr Rugova and Serbian president Milan Milutinovic a "first victory on the road to peace" after six weeks of conflict over the Serb province.

The Milutinovic-Rugova statement called for an end to Nato bombing and for Kosovo to be given "wide self-rule" within Serbia. Nato claims Mr Rugova made the declaration - and other statements since the crisis began - under duress.

Mr Milosevic's intervention came as Victor Chernomyrdin, Russia's former prime minister and special envoy on the Yugoslav crisis, arrived in Belgrade. In earlier talks

with Chancellor Gerhard Schröder of Germany in Bonn, Mr Chernomyrdin raised hopes that Moscow was closer to accepting a significant Nato role in an international peacekeeping force and was moving towards the western allies' stance.

In Belgrade, a spokesman for the Yugoslav president proposed an alternative. "An international presence in Serbia's Kosovo province is not a problem," said Ivica Dacic of Mr Milosevic's Socialist party. "But only a civilian and unarmed mission under United Nations auspices, with Russia's participation, would be acceptable."

Mr Schröder said the positions of Nato and Russia had grown nearer after he met Mr Chernomyrdin.

In Brussels, Strobe Talbott, deputy US secretary of state, briefed Nato on talks he had held in Moscow and said Russia was "pulling out the stops" in trying to contribute to ending the Kosovo conflict. Mr Talbott emphasised that neither the US nor Nato was negotiating with Moscow, and nor was the alliance

negotiating with Belgrade through Moscow.

Robin Cook, UK foreign secretary, also insisted Mr Chernomyrdin was "not acting as an intermediary on [Nato's] behalf", but he hoped the Russian envoy would make Belgrade understand Nato's demands were non-negotiable.

A senior UK official said: "We are pretty realistic - pessimistic - about the likelihood of a breakthrough," but did not rule out Mr Chernomyrdin's chances of success, adding: "It's conceivable that Milosevic could surprise us all."

The White House, meanwhile, warned Mr Milosevic not to interpret Wednesday's vote in the House of Representatives, which rejected a resolution of support for the war, as a sign of weakening US resolve.

Reporting by Ralph Atkins in Bonn, David Buchan in London, Alex Nicoli in Brussels and Deborah Macgregor in Washington

Kosovo crisis, Page 2  
Editorial Comment, Page 10

## Seoul to probe possible misuse of popular \$3bn Hyundai fund

John Burton in Seoul

South Korea is to investigate a popular equity fund managed by Hyundai, the nation's largest conglomerate, for possible misuse of funds.

The decision was partly responsible for a 4.7 per cent fall in the Seoul share index yesterday to 752.61 points.

Hyundai's Buy Korea Fund has become a symbol of Seoul's booming stock market since its launch in early March, attracting Won4,000bn (\$3.38bn) from investors on promises that the share index would reach 2000 within three years.

Lee Ik-chi, the head of Hyundai Securities, has heavily promoted the fund in television commercials, newspaper interviews and meetings with small investors - mostly housewives - with a goal of collecting Won100,000bn by 2002, or more than three times the assets Hyundai is now managing. But the finance ministry said it would monitor the fund

because of concerns that Hyundai was using much of the money raised to buy the shares of companies within the Hyundai group.

It believes that the share purchases could be part of an effort by Hyundai to reduce the group's debt/equity ratio to a government target of 300 per cent by the end of the year.

The success of the Buy Korea Fund has persuaded other leading conglomerates, or chaebol, including Samsung, to establish similar equity funds.

The government, which has stepped up its efforts to force recalcitrant chaebol to reform, said it would also supervise these funds for any violations.

Under its recent restructuring programme, Hyundai said it planned to raise Won10,000bn through new rights issues this year to help reduce its debts of nearly Won80,000bn.

Equity funds managed by chaebol are subject to guidelines limiting their investment in linked compe-

nies. There are also worries about the financial stability of the Buy Korea Fund, which issues beneficiary certificates to investors with guaranteed returns after a specified period. Hyundai could face large losses if the stock market falls.

Officials added that the Buy Korea Fund was exposed to liquidity risks because of the possibility of sudden withdrawals by customers.

State prosecutors have already launched an investigation into alleged insider stock trading by Hyundai affiliates to boost the share price of Hyundai Electronics in an apparent effort to reduce its debt/equity ratio by raising its share price.

The Buy Korea Fund has benefited from a cut in interest rates aimed at promoting economic recovery after last year's financial crisis.

This has boosted the stock market and encouraged investors to withdraw funds from low-yielding bank accounts and switch their money into equities.

## CONTENTS

## News

European News	2.3
American News	3
International News	6
Asia-Pacific News	6
World Trade News	6
UK News	6
Weather	20

## Features

Editorial	19
Letters	18
Management/Technology	18
Observer	19
Arts/Arts Guide	17
Analysis	18, 19
Crossword Puzzle	34

## Companies &amp; Finance

European Company News	24, 26
Asia-Pacific Company News	27
American Company News	22, 23
International Capital Markets	32

## Markets

Bonds	32
Bond futures and options	32
Short term interest rates	33
US interest rates	32
Currencies	33
Money markets	33
FT/SE-A World Indices	41
Euro Markets	31
World stock markets reports	44
World stock market listings	41
London share service	38, 39
FTSE Actuaries UK share indices	40
Recent issues, UK	40
Dividends announced, UK	30
Managed funds service	35-37
Commodities	34
FTSE Gold Mines Index	40

## Special reports

Russia	Separate section
Asian Markets	Separate section

FT.com  
FINANCIAL TIMES

Directory of online services  
via FT Electronic Publishing

FT.com: the Financial Times web site, online news, content and analysis.  
http://www.ft.com  
The United Arab Emirates on easy-to-use business.  
Library of over 3.5 million articles from the FT and from thousands of other leading newspapers and business publications.  
http://www.ft.com/business  
Newspaper subscription information, offers and online ordering.  
http://www.ft.com/subscribe  
FT Annual Reports Service: online ordering of annual or interim reports and accounts of 1200 UK plc's.  
http://www.ft.com/annualreports  
FT Basic directory.  
http://www.ft.com/basicdirectory  
Options: how to get share prices and market reports by telephone and fax.  
http://www.ft.com/options  
Services: details of forthcoming editorial coverage.  
http://www.ft.com/services

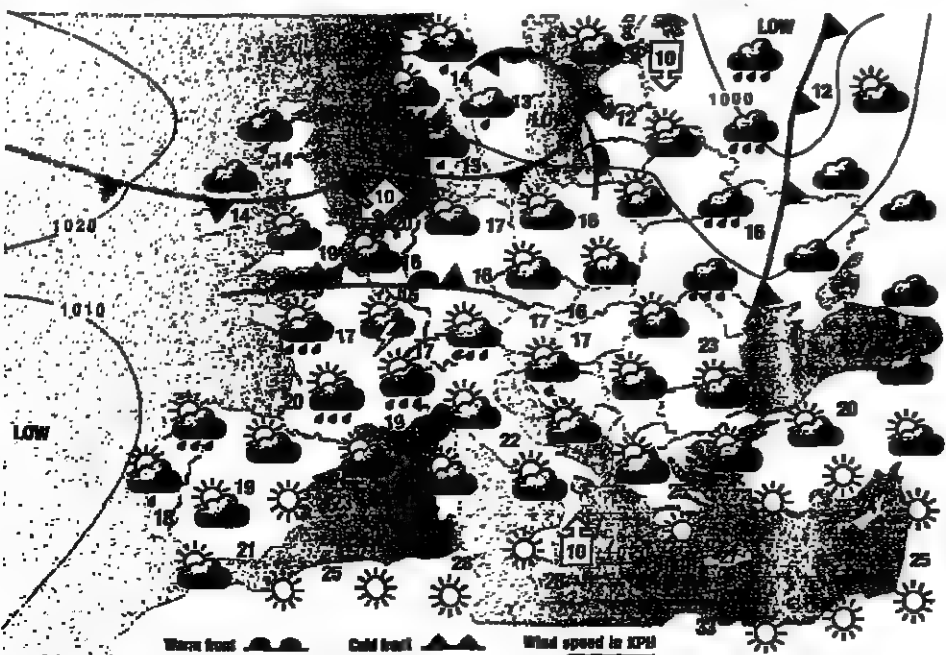
## FT WEATHER GUIDE

## Europe today

Scandinavia will be cold in the north where there may be some sleet or snow showers. However, Denmark and southern parts of Sweden and Norway will be milder, although it will be cloudy with rain. The far east of Europe will have heavy rain owing to a frontal system stretching from Finland to the Black Sea. A large area from north-east Germany to the Balkans will be mostly dry with sunshine. Much of the Mediterranean will be warm and sunny but western Europe will have a few showers, some with thunder.

## Five-day forecast

The Iberian peninsula will be very unsettled, with showers and rain. The rain will be especially heavy on Monday. The eastern Mediterranean will be mostly dry, sunny and warm with isolated showers. Central and western Europe will have showers over the weekend, although it will become drier next week.



## TODAY'S TEMPERATURES

Abu Dhabi	Sun	40
Algiers	Sun	25
Amsterdam	Sun	25
Athens	Sun	25
Atlanta	Fri	21
B.A. New	Fri	23
Buenos Aires	Sun	19
Bangkok	Fri	34

Station at midday. Temperatures maximum for day. Forecasts by FT WEATHER CENTRE

Cairo	Sun	30	Faro	Fri	19	Madrid	Fri	18	Reykjavik	Shower	7
Cardiff	Sun	18	Frankfurt	Shower	18	Manila	Sun	28	Rio	Fri	26
Cebu	Sun	30	Glasgow	Fri	17	Mexico City	Fri	28	Rome	Fri	22
Dallas	Fri	24	Hamburg	Fri	18	Montevideo	Fri	18	S. Paulo	Sun	18
Dubai	Fri	26	Helsinki	Fri	15	Moscow	Fri	17	Seoul	Sun	21
Durham	Fri	18	Hong Kong	Shower	25	Mumbai	Fri	28	Singapore	Shower	13
Edinburgh	Fri	19	Honolulu	Fri	26	Osaka	Fri	21	Stockholm	Shower	13
Geneva	Fri	18	Islamabad	Fri	23	Paris	Fri	18	St. Petersburg	Shower	17
Hankow	Fri	23	Jakarta	Fri	33	Perth	Fri	12	Taipei	Shower	20
Hong Kong	Fri	25	Johannesburg	Fri	20	Port of Spain	Fri	28	Tel Aviv	Sun	25
Houston	Fri	23	Kobe	Fri	18	Rangoon	Fri	28	Tokyo	Fri	18
London	Fri	18	Kuala Lumpur	Fri	27	Rangoon	Fri	28	Toronto	Sun	18
Los Angeles	Fri	18	Laos	Fri	22	San Francisco	Fri	17	Vancouver	Shower	18
Lyons	Fri	18	Manila	Fri	28	Seattle	Fri	17	Vladivostok	Shower	18
Madrid	Fri	18	Medan	Fri	28	Shanghai	Fri	17	Yokohama	Fri	17
Moscow	Fri	17	Miami	Fri	28	Singapore	Fri	17			
			Manila	Fri	28						
			Mexico City	Fri	28						
			Moscow	Fri	17						
			Mumbai	Fri	28						
			Osaka	Fri	21						
			Paris	Fri	18						
			Perth	Fri	12						
			Port of Spain	Fri	28						
			Rangoon	Fri	28						
			San Francisco	Fri	17						
			Seattle	Fri	17						
			Singapore	Fri	17						
			Stockholm	Shower	13						
			St. Petersburg	Shower	17						
			Taipei	Shower	20						
			Tel Aviv	Sun	25						
			Tokyo	Fri	18						
			Toronto	Sun	18						
			Vancouver	Shower	18						
			Vladivostok	Shower	18						
			Yokohama	Fri	17						



This announcement appears as a matter of record only.

**EURO TUNNEL**

£140 million and FF927 million

Senior Debt Refinancing

Senior debt rating: 'A' (Standard & Poor's)

Arranged and underwritten by

**Dresdner Kleinwort Benson** **CCF CHARTERHOUSE**

**Midland Bank plc** **CREDIT LYONNAIS**

Rating Advisor  
**Dresdner Kleinwort Benson**

February 1999

كتاب الاموال



**CAROLINA BUILDERS**  
WOLSELEY plc  
The name behind the name

# FINANCIAL TIMES

## COMPANIES & MARKETS

FRIDAY APRIL 30 1999

**GO PUBLIC**  
In the United States  
We assist companies via 2 methods of becoming PUBLICLY TRADED IN THE U.S.A.  
SEC Registered Public Company Merger or "Customized Registered Spinoff" for companies that don't want to be U.S. corporations.  
www.BKL.com BrokerLink/Pierce Mill  
U.S. Tel (310) 556-6520 Fax (310) 556-6523

### INSIDE

**Mannesmann weighs its options**  
Mannesmann was still celebrating its DM2.25bn (\$1.22bn) purchase of the a.t.o. fixed-line business when rival Deutsche Telekom joined forces with Telecom Italia to form the world's second largest telecoms company. Now Mannesmann is having to rethink its expansion. Page 28

**BAT nears completion on Rothmans**  
British American Tobacco expects its \$5.3bn (\$8.5bn) takeover of Rothmans International to clear the last regulatory hurdle in Australia and be completed by the end of June. Martin Broughton, chairman (left), said the merger would have an impact on the balance of the year but, excluding Rothmans, operating profit should be similar to that of last year. Page 30

**London gilts sale fails to glister**  
Analysts said investors were unwilling to commit themselves to a gilt they considered overvalued after an auction of \$500m (\$805m) of index-linked British government bonds undersold for the first time since 1995. Page 32

**Euro depressed by Balkan gloom**  
The euro dipped to \$1.059 by the end of London trading on renewed fears that the Balkan crisis would engulf Macedonia and Albania and hopes of a peace deal receded. Page 33

**Spending boosts credit card lenders**  
Two US specialist credit card lenders, Provident Financial and Capital One Financial, doubled their share prices in 1998 and in trading this year are up more than 75 and 50 per cent respectively as heavy consumer spending combines with low credit losses. Page 23

**Iron exporters band to market forces**  
Iron ore exporters are aggressively discounting below sharply lower benchmark prices in order to bolster volumes as the market comes under fresh pressure from contracting world crude steel production, falling freight rates into Asia and excess ore supply. Commodities, Page 34

**War drives up defence stocks**  
France's Thomson-CSF and Lagardere and British Aerospace have risen by up to 20 per cent recently. Nato's intervention in Kosovo is not yielding extra orders but it may boost the defence industry by revealing shortcomings in Europe's armed forces. Euro markets, Page 31

**Manila recovers pre-crisis spirit**  
Manila's sluggish dealing rooms have been revived by an upsurge of liquidity in Asian markets. The Philippines' PSE 30 index has risen 21 per cent this month to 2,459 and the market has rallied 123 per cent since its low in September 1997. Emerging market focus, Page 44

### COMPANIES IN THIS ISSUE

AGF	24	Kuoni	26
Abbey National	40	LG	27
AgriEvo	24	LVNH	24
Airtours	26,40	Lazard	26
Allied Domecq	20,28	Logitech	24
Amazon.com	20,28	Lithuania	24
America Online	22	MCI WorldCom	21
Asahi	22	MTNL	27
Asel Domini	27	Mannesmann	28
Astra International	24	Metall Saria	28
Axa	24	Meyer	40
BASF	28	MoDo	28
BAT	28	Olivetti	28
BBV	28	On Digital	28
BCI	28	One-2-One	28
BHP	28	Panipina	28
BP Amoco	28	Paribas	28
Banco Intesa	28,28	Pearson	28
Bank One	28	Planeta	28
Banque Paribas	28	Prisa	28
Boeing	28	Provident Financial	28
British Aerospace	28	RWE	28
CBS	28	Reunion	28
CCF	28	Rio Tinto	28,40
CMP Media	28	SARGroup	28
Canal Plus	28	SCA	28
Capital One Fin	28	SEB	28
Cariplo	28	Samsung	28
Carton Comm	28	Scania	28
Cargo Global	28	Shell Oil	28,40
Citigroup	28	Siam Comm Bank	28,21,27
Commerzbank	28	Sing Tao	28
Credit Agricole	28	Skanska	28
Credit Lyonnais	28	Telecom Italia	28
Deacom	28	Telefonica	28
Dana	28	Telmex	28
Deutsche Telekom	28	Tenneco	28
Ellipso	28	Thomson	28,40
Endesa	28	Travis Perkins	28
Excite	28	UPM-Kymmene	28
Finnmeccanica	28	USA Networks	28
First Choice	28,40	Unicredit	28
Fort	28	Unilever	28
Graham Group	28	United News & Media	28,40
Heitex	28	VSNL	28
Hicks Muse	28	Vesta	28
Hoechst	28,24	Vivendi	28
Hyundai	28	Volvo	28
Infinity Broadcast	28	Wolseley	28
Infoseek	28	eBay	28
Jacky Maeder	28	a.t.o.	28
Kirch Group	28		

### CROSSWORD, Page 34

### MARKET STATISTICS

Annual reports due	38,39	Emerging Market bonds	32
Benchmark Govt bonds	32	FTSE Advances share indices	40
Bond futures and options	32	Foreign exchange	33
Board prices and yields	32	Gilts prices	32
Commodities prices	34	London share service	38,39
Dividends announced, UK	28	Managed funds service	35,37
EMS currency rates	32	Money markets	32
Euro Markets	31	New list bond issues	40
European prices	32	Recent issues, UK	33
Fixed interest indices	32	Short-term rates	33
FTSE/A World indices	41	Stock markets at a glance	43
FTSE Gold Mines Index	40	US interest rates	32
		World stock markets	41

## Ellipso turns to Boeing for funds

By Christopher Price in London

Boeing is in talks to take control of Ellipso, a hand-held satellite mobile telephone group, in a move likely to cost the US aerospace group around \$500m.

The negotiations come in the wake of the disastrous start made by Iridium, which launched the first use-anywhere global mobile phone service six months ago, but breached its banking covenants after failing to attract enough subscribers.

Ellipso has turned to Boeing, its prime contractor and owner of a 10 per cent stake, to further fund the \$1.5bn project

## Aerospace group may control satellite phone venture

because Iridium's problems have soured the market for satellite public offerings and made the debt markets fearful of further exposure.

The move may be of concern to Boeing shareholders given the Iridium situation. Iridium, which is backed by Motorola and has spent \$5bn on its system, attracted just 10,000 subscribers in its first five months and reached just more than \$1m in revenues.

Poor marketing was compounded by technical problems. Iridium's phones were priced at \$3,000 and its call

rates, as high as \$7 a minute, were seen as expensive in a mobile market where call and handset costs have been falling dramatically.

In addition, roaming agreements among conventional mobile operators, underpinned by the success of the GSM mobile standard, have undermined the use-anywhere benefit of direct satellite services, such as Iridium.

Ellipso, a private company based in Washington, DC, believes its business model differs markedly from its rivals - although it is still targeting

the so-far elusive business traveller who wants to be able to phone to and from anywhere in the world.

The group says its low start-up costs compared to its rivals will enable it to charge much lower call rates. For this reason, it believes the Ellipso service will be popular in developing countries lacking a telecommunications infrastructure.

Ellipso was founded by David Castiel, president and chief executive, who patented the company's orbit pattern. Investors in the group include

Lockheed Martin, Harris Corporation and Israel Aircraft Industries.

Ellipso intends to launch in 2002. Two other satellite services are due to launch ahead of Ellipso, further crowding the tiny market. Globalstar is due to launch this year and ICO Global Communications intends to launch next year.

Analysts put the total amount of funding required for the five systems at more than \$12bn. Iridium's difficult start has intensified doubts that the market could support five competing systems.

Groups eye developing world, Page 5

## Internet traffic boost for MCI WorldCom

By Richard Waters in New York

MCI WorldCom has stretched its lead as the biggest carrier of communications traffic on the internet, according to first quarter earnings figures released yesterday.

The news came as the US carrier remained locked in negotiations over an acquisition of Nextel, a US wireless carrier, a deal that would launch it into a fast-growing part of the telecoms business. The talks are thought to have been slowed by disagreement on significant issues including price.

Although MCI WorldCom's lack of a wireless operation has led it to miss one of industry's biggest growth areas, the company, created by a merger last year of WorldCom and MCI, still outgrew other large US carriers in the first three months of this year.

The underlying growth of 17 per cent in its communications activities, to \$7.9bn, outstripped that at other US carriers, ranging from 4 per cent at Bell Atlantic to 10 per cent at Bell South.

"Growth is of highest priority to us," said Bernie Ebbers, chief executive. The company would shortly announce plans to invest an extra \$1bn, most of it raised from the sale of its Systemhouse subsidiary, to boost its data and international networks.

Behind its latest figures lay a 60 per cent jump in internet revenues, to \$758m, while total revenues from data services reached \$2.46bn, almost 40 per cent higher than a year before.

The figures appear to indicate that the sale of MCI's internet activities last year to Cable and Wireless of the UK, imposed by anti-trust authorities as a condition of the merger, has not slowed the growth of the company's market share on the internet.

While still valuing MCI WorldCom on the strength of its high growth rate, Wall Street has turned its attention to the company's earnings as it tries to squeeze \$2.5bn of cost savings this year.

Those efforts appear to be paying off as the company produced earnings per share of 38 cents in the first quarter, ahead of most analysts' expectations, compared with 10 cents a year before.

## Liffe in move to lift ban on operating in the US

By Edward Luce in London

London's futures exchange is to apply for a waiver on a regulation banning foreign exchanges from operating in the US in a last ditch attempt to overcome what the exchange claims is "discrimination" against it.

Brian Williamson, chairman of the London International Financial Futures and Options Exchange, has described the US regulation as an "injustice" which is "clearly discriminatory and anti-competitive".

Under the regulation, which the Commodity Futures Trading Commission, the US derivatives regulator, is reviewing, foreign exchanges are officially debarred from setting up trading screens in the US.

However, Liffe's main competitor, the Frankfurt-based Eurex, has screens in the US under a waiver it received in 1998. Last year the CFTC froze the number of Eurex screens. Liffe claims its exclusion is strangling London's chances of competing with Eurex in the US market.

The Frankfurt exchange overtook the Chicago Board of Trade to become the largest derivatives exchange in the world in March. It derives 6 per cent of its turnover from the US market but a much larger share in some of its leading contracts, including the future on the 10-year German government bond, the most heavily traded future in the world in March.

But Eurex, which is lobbying alongside Liffe and Matif, the Paris-based exchange, for an opening of the US market to foreign exchanges, says it installed its screens two years before Liffe even decided to switch to electronic trading.

Mr Williamson yesterday said he was optimistic the CFTC would approve the waiver. Liffe, which is investing \$5m on building a US "hub" for its screens on the assumption it will be granted a waiver, says it must receive permission within weeks if its plans are not to be upset by the so-called "millennium bomb".

"We need several months to undertake trials of the system," said one official. "Anything later than July means we could have to wait until January 2000."

Foreign exchanges accused the CFTC of "protectionism" and "obfuscation" last month when the regulator published a lengthy draft proposal on the rights of foreign exchanges to trade in the US. Officials said the document was riddled with caveats and would make a nonsense of the CFTC's claim that it was operating on the market. The resulting future persuaded Liffe that it could take months before a new draft proposal was unveiled.

Many of the Europeans believe the CFTC has come under fierce lobbying pressure from the Chicago futures exchanges which are predominantly floor-based operations and are thought to be fearful of competition from foreign screen-based rivals.

A prospective alliance between the CBoT and Eurex fell apart last year after the election of David Brennan as chairman of the Chicago exchange. Mr Brennan balked at the costs of the proposed tie-up. Matif is in an alliance with the Chicago Mercantile Exchange and Simex, the Singapore Exchange, known as Globex.

## Siam Commercial raises \$1.75bn

Capital-generating rescue package may herald end to Thai banking crisis

By Ted Barnardo in Bangkok

Siam Commercial Bank, Thailand's fourth largest commercial bank, yesterday completed a landmark \$1.75bn capital-raising scheme that may herald the end of the country's banking crisis.

Under the government-private sector plan, private institutional investors in Asia, the US and Europe bought \$122.5bn (\$865m) worth of new shares at \$126 per share, a price much higher than expected.

Thailand's Crown Property Bureau, Siam Commercial's largest shareholder, spent \$47.5bn to purchase the largest single block of shares.

The Thai government matched the \$122.5bn investment and gave the new private investors warrants allowing them to buy Siam Commercial shares back from the government in three years at a price of \$126.45 per share.

The deal, co-ordinated by Salomon Smith Barney, is the largest Thai equity offering ever and comparable to the near \$2bn in private equity raised more than a year ago by Bangkok Bank and Thai Farmers Bank.

It is the first success for the Thai government's capital assistance programme for troubled commercial banks.

The programme had been languishing since it was announced last August, with bank owners resisting clauses that require a change in bank management and provision in advance for bad debt to be borne by current shareholders.

But the structure of the Siam Commercial deal proved benign on both fronts, analysts said.

Among upper management, only Olarn Chairpravat, president, and Prakit Pradipien, senior executive vice-president, lost their jobs, while the Crown Property Bureau has been allowed to assert more operational control.

In addition, provisioning levels are to be raised only after the bank receives the new capital. Old shareholders are still being heavily diluted, almost 80 per cent, but lose much less than they would have if provisions had been made before the capital-raising exercise.

Recognition of this structure has led Siam Commercial Bank ordinary shares to soar



A Thai state worker holds a staff during demonstrations in Bangkok against the government's efforts to privatise state enterprises as part of reforms to boost the country's economic crisis. Picture: Reuters

## UK publishing group bids \$920m for CMP Media

By Richard Rivlin in London

United News & Media, the UK television and publishing group, yesterday launched a recommended \$920m offer for CMP Media, a US technology media company.

United News intends to combine Nasdaq-listed CMP into its Miller Freeman trade show and publishing business. The deal will help turn Miller Freeman into a leading online provider of business-to-business products and services for the technology market.

Under the terms of the deal, United News is offering \$39 for each of CMP's shares. The Leeds family and related trusts account for 86 per cent of CMP's stock and have agreed to support the bid.

United News shares rose 47p to 790p as the market interpreted the deal as likely to bring new revenue from the internet. The bid for CMP follows Miller Freeman's \$112m acquisition of Continuing Medical Education in March. Both deals will strengthen Miller Freeman's position in the US market.

Lord Hollick, United News chief executive, intends to open the internet arm of CMPNet and existing Miller Freeman high-technology groups to public subscription in the US later this year. The online business of CMP, together with Miller Freeman's existing internet arm, is forecast to see revenues of \$35m in 2000.

"We will set up a tracker stock to give investors access to the internet arm. Investors will have ownership of the

earnings but not of the assets," Lord Hollick said.

In 1998 CMP had revenues of \$478m and earnings before interest, taxation, depreciation and amortisation of \$28m. Its titles include Computer Reseller News.

The deal, which United News said would be earnings enhancing after 2000, is to be funded by debt. The transaction and restructuring costs will result in an exceptional item in the profit and loss account of \$65m after tax and an additional \$65m in the group's balance sheet.

Lord Hollick said: "This is bang in line with our strategy of moving into high growth markets. CMP has a great position and we have been talking with them for the last year."

"There is a great opportunity to cut costs through elimination of loss-making businesses, merging of functions as Miller Freeman has an efficient US structure and by managing the yield."

United News hopes its actions will lead to a rise in CMP's operating margins to at least the 20 per cent level achieved by Miller Freeman.

Anthony de Larriaga, a media analyst at WestLB Panmure, said: "It fits the bill strategically taking Miller Freeman into the hi-tech arena. It is an attractive deal and further increases the group's focus on television and business to business."

After the deal United News will receive 58 per cent of its profits from business services.

Observer, Page 19  
Comment, Page 28

This announcement appears as a matter of record only. April 1999

**Computer Answers Group**

**Management Buy-Out**

Transaction initiated, led and arranged by

**Royal Bank Development Capital**

**£12,000,000**

Equity Investment arranged by

**Royal Bank Development Capital**

www.rbc.co.uk  
Royal Bank Development Capital Limited  
Registered in England Number 020441  
Registered Office: 25 St. Andrew Street  
Edinburgh EH2 2DF  
Incorporated in 1993  
A Royal Bank of Scotland Group

**Royal Bank Development Capital**



## COMPANIES &amp; FINANCE: THE AMERICAS

TELECOMMUNICATIONS MEXICAN CARRIER TO SEEK GROWTH THROUGH STRATEGIC ALLIANCES

## Telmex chief outlines group's expansion strategy

By Andrea Mandel-Campbell  
in Mexico City

Telmex, the telecommunications group which is Latin America's largest company, will remain firmly in Mexican hands but will continue to seek strategic alliances abroad in its bid to expand coverage throughout the region, said Carlos Slim Helu, Telmex president.

"Telmex is not just any company; it's fundamental for the future of the country and we want to be a national

company of Mexicans in Mexico with international alliances to the south and especially to the north," said Mr Slim.

He is also chairman of Carso Global Telecom, which owns a controlling 26.5 per cent stake in Telmex along with Southwestern Bell, the US telecoms company, and France Telecom.

The former telephone monopoly wants to enter the US cellular market, said Mr Slim, following the recent purchase of a 55 per cent

stake in Topp Telecom, a US-based wireless communications company. Telmex is also about to launch cellular services in Guatemala where it operates Telgua, the fixed-line telephone company.

In Mexico, Telcel, Telmex's mobile arm, is the market leader, with more than 95 per cent growth in its subscriber base in the past 13 months.

Mr Slim said that Telmex would also expand its reach through the internet. It plans to launch internet ser-

vices throughout Latin America, starting in Guatemala, through Prodigy, the US internet provider it acquired last year.

Prodigy, with some 500,000 US subscribers, launched a service in Spanish this month with links to CNN and Yahoo! sites also in Spanish. The move is part of an attempt to target the 20m-strong Hispanic population in the US, which includes some 7m Mexicans.

The effort also includes selling, to Mexicans living in

the US, telephone lines in Mexico - to be paid for those expatriates - for instalment in family members' homes in Mexico.

Telmex, through an alliance with Sprint, was given permission to resell national and international long-distance services in the US last August, although it has so far been blocked from a full licence due to a dispute with AT&T and MCI Worldcom over international settlement rates.

A tentative agreement

over settlement rates was reached with the two US carriers earlier this year but AT&T and MCI are still objecting to Telmex's entry into the US, arguing that it retains a dominant position in Mexico and employs anti-competitive practices.

Mr Slim however played down Telmex's desire to become a full operator in the US. "Of course we are still interested in long-distance but every day it becomes a less valuable commodity."

He also dismissed specu-

lation that Carso could lose control over Telmex when a special trust representing the voting shareholders was broken up at the end of 2000.

Under Telmex's 1980 privatisation agreement, its L shares or ADRs can be converted into voting shares following the dissolution of the trust, currently the sole holder of voting shares.

Nonetheless, analysts say that, due to a share buy-back programme by Carso over the past five years, it would retain outright control.

## Apache in \$715m deal with Shell Oil

By Beverly Harman in Houston  
and Robert Corzine in London

Apache Corporation, a Houston-based independent oil and gas production company, has agreed to buy about half of Shell Oil's exploration and production properties in the outer continental shelf of the Gulf of Mexico for \$715m and 1m shares of Apache common stock.

The agreement includes 22 producing fields and 16 exploration leases. Apache estimates the properties have proven reserves of 127.3m barrels of oil and natural gas.

For Apache the purchase is part of its strategy to buy mature properties in North America to generate cash to finance international exploration.

The company believes it can produce oil and gas more efficiently than larger oil companies such as Shell Oil.

Raymond Plank, Apache chief executive, said: "Alternative shareholder reward is predicated upon the value we seek to add, the continuing environment of volatile oil and gas prices and the success of our strategy to fund discovery of oil and gas in our growing international core areas."

Walter van de Vijver, Shell E&P chief executive, said the move was part of an overall programme to streamline operations and upgrade its position in the Gulf of Mexico.

In recent years Shell has shifted its Gulf of Mexico emphasis to deep water areas, where it has made a number of large discoveries.

Earlier this month Shell announced it would spend about \$900m developing the deep water Brutus field, with first production expected in late 2001.

"Our intent is to focus our activities in those areas with longer-term strategic value," he said.

The transaction is expected to close within 30 days.

## Internet stocks fall and stall

By Roger Taylor  
in San Francisco

Amazon.com, the Internet retailer, this week reported a 236 per cent increase in revenues and its stock dropped 13 per cent. America Online announced a near-tripling in net income and earnings 2 cents ahead of forecast, but investors punished the stock in the world of the Internet even the most explosive growth can disappoint.

Despite many leading companies meeting or beating expectations, the overall mood of Internet investors following this month's earnings announcements is downbeat. Most of the leading shares are well off their highs. AOL is at \$136%, against a high of \$175%. Yahoo! is at \$169%, from a high of \$244. Amazon.com is down to \$169%, from a high of more than \$221.

Rather than boosting the sector, the latest results appear to have stalled it. The Kindex index of leading Internet stocks - maintained by Keith Benjamin, Internet analyst with BancBoston Robertson Stephens - has been underperforming the Nasdaq composite.

However, analysts point out that there is a silver lining. Although Internet stocks have been troubled, they have not collapsed.

However, there have been some worrying signs of weakening performance. Two weeks ago Infoseek, one of the leading Internet companies and a partner of Walt Disney, reported a slight drop in revenues from the first to the second quarter. It said it expected revenues to pick up again and blamed delays in signing new promotional deals while it got its new Go.com Internet site up and running. However

brokers BT Alex Brown downgraded the stock from strong buy to buy.

The following day Excite, another leading Internet portal, reported a 123 per cent increase in revenues, but missed earnings estimates with a loss 1 cent higher than expected. Donaldson, Lufkin & Jenrette, the broker, has since downgraded the stock from buy to market performer.

The astonishingly high valuations put on Internet stocks has led to a widespread expectation that the slightest sign of weakness could bring the whole sector down with a thump. And that appeared to be the case last week when it suffered one of its worst ever falls, with most stocks dropping 15-30 per cent.

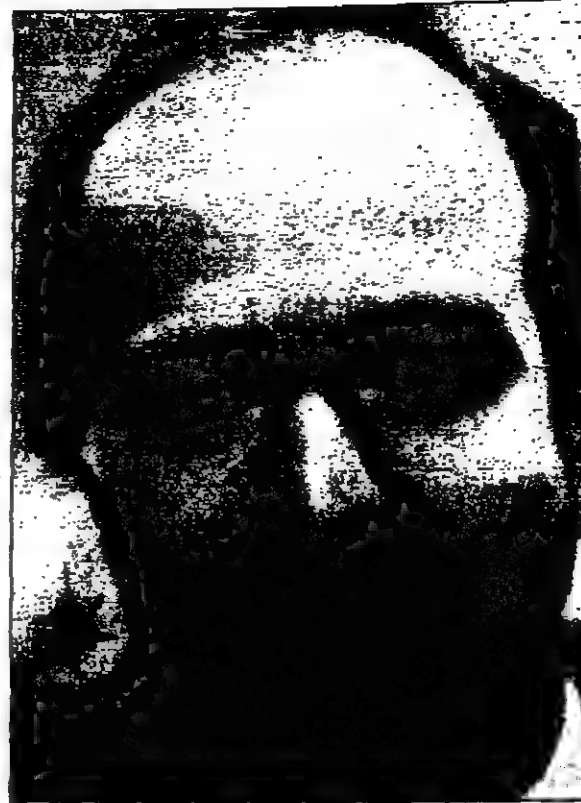
However, the market has since steadied, with many stocks winning back much lost ground. Although inter-

net stocks continue to weaken, they remain strongly up on the year. The Goldman Sachs Internet Index shows a gain of more than 30 per cent over the past three months and a threefold leap over the past six months.

Jeff Bezos, chief executive of Amazon, warned this week that the growth rates were bound to slow. It is a refrain often heard from Internet companies, but it does little to dampen rampant enthusiasm among investors. And many businesses continue to beat even the wildest hopes.

This week eBay reported a 489 per cent sales increase and earnings more than double forecasts.

Such feats will become rarer as the Internet grows. However Internet investors have shown they can respond to signs of a slowdown without panicking.



Jeff Bezos warned on Amazon's slowing growth Ashley Ashwood

## Cashflow rises 29% in quarter at USA Networks

By Christopher Parkes  
in Los Angeles

USA Networks, the cable-television and e-commerce group, picked up pace in the first quarter as all divisions contributed to a 29 per cent increase in cashflow.

The networks and studio operations, including the

most popular cable service, USA and the top-ranked knock-about talk show hosted by Jerry Springer, increased operating cashflow by 30 per cent to \$109m.

While revenues from this business increased only 2.6 per cent to \$332m, the company said the networks, which include the Sci-Fi cable channel, showed a 10

per cent improvement. Group revenues rose 8.5 per cent to \$729m.

The improvement in TV cashflow, defined as earnings before interest, taxes, depreciation and amortisation, and considered by some as the most reliable measure of progress at indebted companies, was driven by strong advertising.

The US network, which regularly attracts more than double the average cable channel audience, is especially popular for its wrestling coverage.

Home Shopping Network, one of the original television-based electronic commerce operations, improved cashflow 26 per cent, while the group's event ticket-sell-

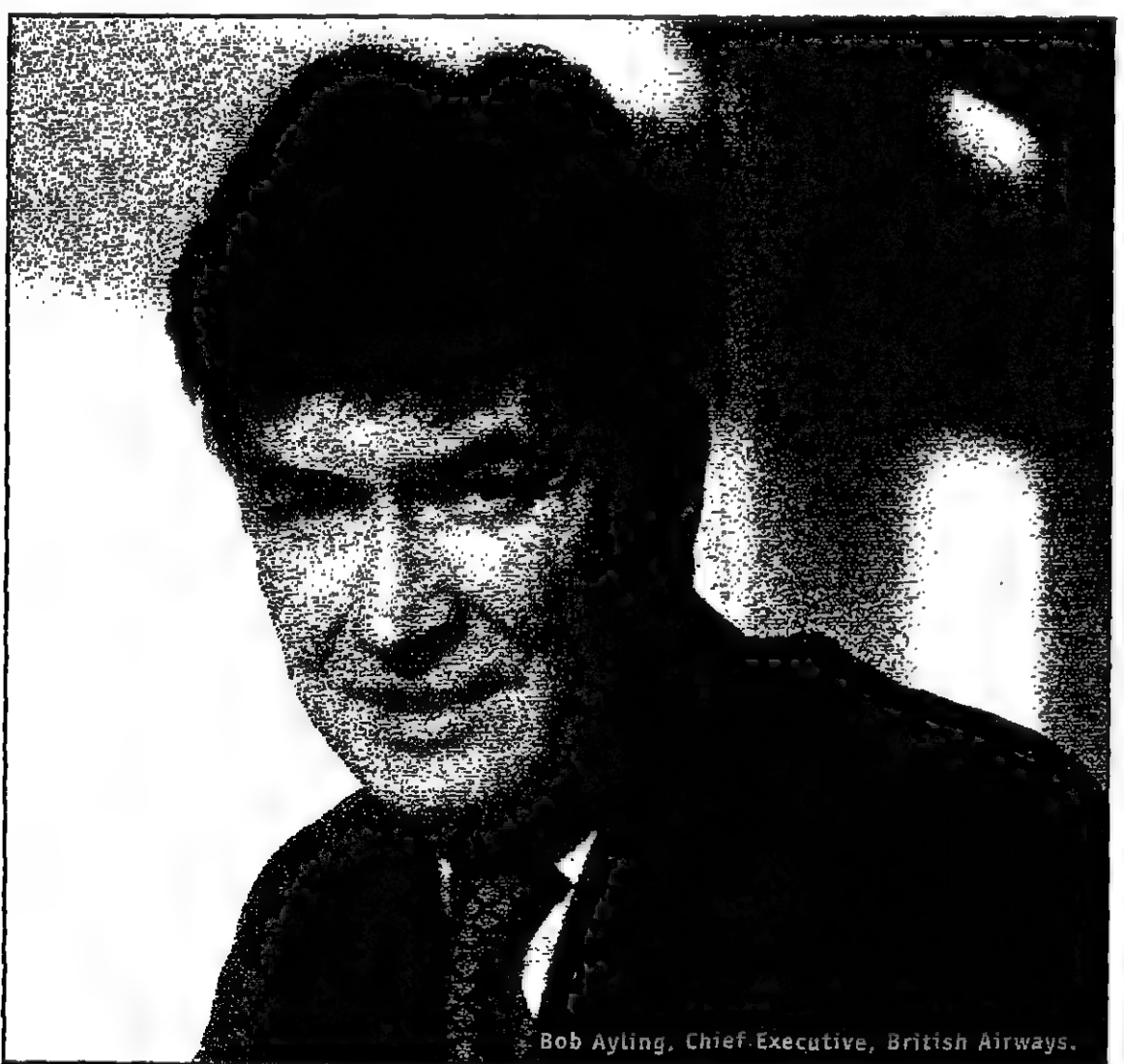
ing division grew 31 per cent.

Although it is still the smallest of the divisions, online ticket sales are gathering pace. Online sales accounted for almost 9 per cent of all tickets sold during the quarter by the Ticketmaster subsidiary, up from 2.5 per cent last year.

The evolving group, which

is run by Barry Diller, credited with building News Corporation's Fox broadcast network, is 43 per cent owned by Seagram.

It is based mainly on television assets formerly run by Seagram's Universal Studios, which recently sold its independent film making arm, October Films, to add to Mr Diller's collection.



Bob Ayling, Chief Executive, British Airways.

ground control  
to number one.

thanks healey & baker. You've helped us to provide a superb ground support network from Austria to Uzbekistan. Working hand in hand with us at British Airways

Property to support local business units in no fewer than twenty European destinations.

Call Patrick Going on 0171 629 9292. Delivering property solutions that meet corporate objectives.



NORMA COHEN  
THE PROPERTY MARKET

## Public assets in private hands

The UK government's sale of a 700-property estate may prompt an overhaul of corporate ownership and management

Who are the "right" owners of property? If the answer appears unclear, the UK's National Audit Office at least thinks it knows who the "wrong" owners are - government.

In a report published last week, the NAO pronounced on the UK government's largest property transaction and concluded that the Department of Social Security's decision to transfer ownership and management of its 700-property estate is truly value for money.

The NAO report on Trillion, the Goldmans Sachs-backed consortium which has taken on the ownership and management of the estate, has been eagerly awaited by investment banks keen to do similar deals. It is expected to serve as a blueprint for corporations waking up to the fact that they have inadvertently entered the property business.

Carl Berquist, deputy director of Arthur Andersen's worldwide real estate practice in Washington DC, notes that the DSS is not the first government agency to look at how it uses property. In

1992, the General Services Administration, a body of the US government, commissioned a study as part of a comprehensive review of its effectiveness as a service provider.

Although the GSA has not acted on that study, it is clear that others in the corporate sector are thinking that way.

"Historically there was a belief that owning your property was a way of controlling your destiny," Mr Berquist says. "But increasingly, the focus is on return on capital. The emphasis is on investment in intellectual capital, not physical capital," he says.

Mr Berquist cites the US cellular phone companies as a sector which has realised that property ownership actually reduces returns on capital. "Cellular phone companies need towers," Mr Berquist says. Initially, they built towers on which they sited transmitters. "Then they realised they can sell the towers and just lease the space from others," he says. Moves such as these are beginning to attract institutional investors.

Indeed, the question is perhaps not why specialist

property investment companies are arising, but why it has taken so long for non-property companies to demand their creation. The US recession of the early 1990s sparked the outsourcing of almost every conceivable non-core activity, except property, arguably the one with the greatest cost.

However, some large corporations are clearly making the strategic decision to leave the property business. Last year, Bell Canada sold off its entire real estate portfolio to Toronto-based Trizec Hahn, one of North America's largest property investors.

Greg Wilkins, president and chief operating officer of Trizec Hahn, says that Bell Canada leased back the properties through a series of five to 15-year contracts, intended to give it greater flexibility, while giving TrizecHahn scope to improve the assets and raise rental income.

TrizecHahn provides all management duties, and leases give the tenant the chance to break terms if the standard of service falls below mandated levels.

"There was a psychology

that many large companies think they need to own the space they occupy," Mr Wilkins says. "Now they know this isn't the case."

The phenomenon is not limited to the US. This month, Union Bank of Switzerland announced it intends to sell about 500 of its Swiss property assets, some of which will be leased back under long-term leases, with the rest to be sold off.

"Property is not one of our core businesses," a spokeswoman explains.

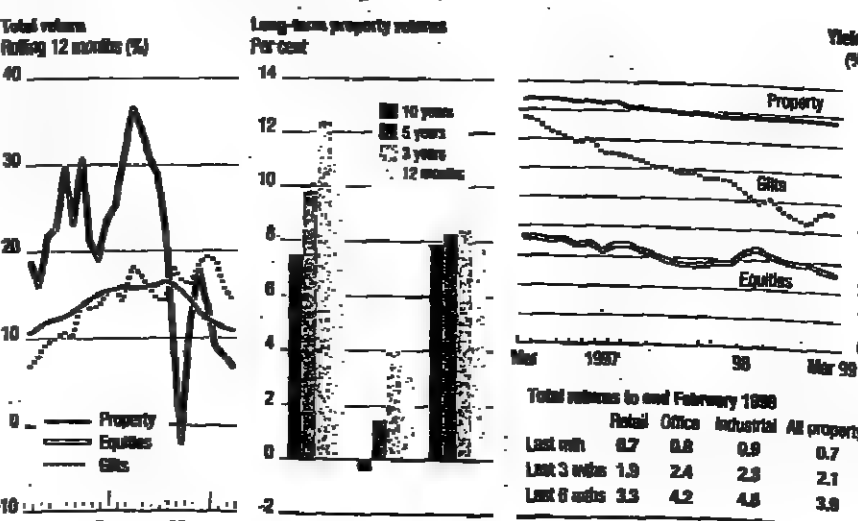
The question is whether the fact that the NAO has stamped its imprimatur on the DSS deal will encourage the private sector to make such a sweeping overhaul of its own real estate assets.

John Mason, director of estates at DSS, says: "This is a strategic decision. It is not just an interesting little property deal."

But ultimately, Mr Berquist says, this is a decision that must be made by boards. Simply selling assets to investors and occupying them under long-term leases misses the point; the corporation has more capital but even less flexibility.

"What we tell people is that you have to align your real estate strategy with your corporate strategy," he says.

## IPD UK monthly index for February 1999



## Better signs

Property values shrugged off the effects of the 0.5 percentage point rise in stamp duty in March, which should have had an equivalent effect on yields. In the event, yields only rose 0.2 per cent, suggesting that underlying capital values actually rose.

Further evidence of improving markets lies in returns, which are higher throughout the first quarter in all three property asset classes than in the fourth quarter of 1998.

Retailers have seen the strongest signs of improved rental value growth with the rate in March the best since last summer.

REAL ESTATE LINE

SOUTH OF FR

FOR SALE

Home Buy

PROPERTY

100,000

STATISTICAL



COMPANIES & FINANCE: THE AMERICAS

RESTRUCTURING US CONGLOMERATE TO MAKE AUTOMOTIVE PARTS AND PACKAGING ARMS INDEPENDENT COMPANIES

Tenneco spin-offs complete break-up

By Nikki Tait

In a final "break-up" move, Tenneco, the once-sprawling conglomerate, announced that it planned to spin off its automotive parts and packaging businesses as two independent companies.

The action, which was widely expected, was first indicated last July when the company announced it was considering "a broad range of strategic alternatives" - including a separation of its two remaining businesses - in an effort to address a lacklustre share price and increase shareholder value.

Since then, there has been speculation that Tenneco might choose an outright sale of the automotive arm, and various potential buyers were mooted. However, in recent weeks, it became increasingly clear that an attractive deal was not in the offing.

Dana Mead, Tenneco

chairman, said yesterday that he believed the separation would "generate the greatest short- and long-term value".

The deal will in effect complete a six-year break-up process. During that time, Tenneco has spun off the Case tractor and construction equipment business; Newport News Shipbuilding; Tenneco Energy; and Albright & Wilson Chemical - one of the most comprehensive dismemberments of a conglomerate ever undertaken.

The final break-up of the remaining automotive and packaging arms will be formally effected through a spin-off of the packaging arm to existing Tenneco shareholders.

The automotive business will have annual sales of about \$3.2bn, about 27,500 employees, and encompass both the original equipment supply business and the

aftermarket business, which has been problematic recently, but returned to profits in the first quarter of 1999.

Some of its better-known brand names include Walker exhaust products and Monroe ride control systems. However, Tenneco said yesterday it would probably carry a debt rating which is non-investment grade.

The packaging unit, meanwhile, will have annual sales of about \$3bn, and include the range of specialty products, from industrial stretch wrap to the Hefty and One-Zip consumer brands.

Its debt rating is likely to be investment grade. Employees currently number about 15,700.

It will also own the 45 per cent stake in Tenneco's former containerboard business, Packaging Corporation of America, which Tenneco had already announced would be separated from the



Dana Mead believes separation will generate the greatest short- and long-term value

remaining group.

Both the car and packaging companies will be based in the Chicago suburbs, where they have their divisional headquarters, and Tenneco's already-sold headquarters building in Greenwich, Connecticut, will close.

Mr Mead said he would clarify his ongoing role in about a month - but indicated that he was likely to maintain some lesser involvement with the businesses.

Confirmation of the spin-off plan came as Ten-

neco announced a fall in first-quarter profits from continuing operations from \$75m to \$45m. Sales were \$1.85bn, against \$1.8bn.

Tenneco shares rose 5/8¢ to \$28 1/2, but are still down on their 52-week high of \$47.

Strong growth in credit card revenues

By John Authers in New York

US credit card companies  
Share prices and index (rebased)

US credit cards have shown startling growth in revenues in the past few months, as heavy consumer spending in the US has combined with low credit losses.

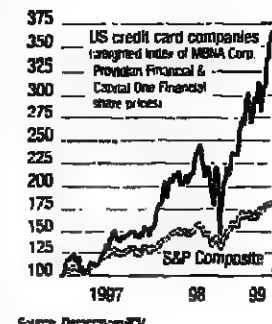
Shares in two specialist credit card lenders - Provident Financial, which has \$14.3bn in managed loans, and Capital One Financial, with \$17.4bn - have made spectacular returns so far this year. Both companies doubled their share price during 1998, and in trading yesterday Provident was up more than 75 per cent and Capital One was up more than 50 per cent for 1999.

Both use sophisticated database mining techniques to target individual consumers with specific offers: relatively wealthy customers might be offered air miles while others could be offered a low interest rate.

The companies have also reinforced their position by levying fees for late payment, and gaining more income from fees rather than interest. Economic conditions have helped. According to Standard & Poor's monthly index of credit card quality, the proportion of credit card debts written off last month was 6 per cent. A year ago it stood at 6.7 per cent, and two years ago it was 6.9 per cent. These figures are still higher than normal for periods of economic strength, mainly because of the rise in personal bankruptcies.

The improving credit picture has helped more broadly based banks as well as the specialists. Citigroup and Bank One, the two largest US credit card issuers, both raised their total revenues significantly during the first quarter, bucking the trend for the rest of the banking sector. Despite having large portfolios, both also had a better credit quality than the industry as a whole.

Citigroup raised core income from cards by 75 per



cent to \$268m. Revenues increased 40 per cent, thanks to pricing increases and a 48 per cent growth in total receivables to \$69bn, boosted by the acquisition of AT&T's credit card portfolio last year. Its charge-off rate, often worse than the industry in the past, improved to only 4.72 per cent.

Bank One, which has a slightly larger credit card business within the US, increased its managed credit card loans by 18 per cent over the year to \$68.1bn. Credit card fees grew 13 per cent to \$347m. Its credit card charge-off rate fell to 4.34 per cent, well down on last time's 5.41 per cent.

Valuations remain more of a problem. Capital One now trades at a multiple of about 33 times estimated earnings for 1999, while Provident trades at 38 - both comfortably in excess of the average multiple for S&P 600 companies, which is about 28.5.

Derek Sword, who covers the credit card industry for the Keefe Bruyette & Woods brokerage in New York, says: "Their growth rates are in line with their price-earnings multiples. Provident is forecasting 35 per cent growth for 1999.

"Credit cards are growing faster than any other area of financial services, and you have to value these companies by their inherent growth rates, not by comparing against financial services stocks or the market."

Ford cancels Brazil factory

By Geoff Dyer in São Paulo

Ford Motor Company, the world's second largest carmaker, has cancelled plans to build a new \$1bn factory in the Brazilian state of Rio Grande do Sul following a dispute with the state government over incentives.

Ford, which is losing money on its Brazilian operations, said it still intended to build a new facility in Brazil and was looking for another location.

The company has been involved in a dispute since March with the state government, won by a left-wing opposition party in last year's elections, after the state withdrew around \$20m in subsidies that had been promised to Ford, and General Motors, which is

also building a plant in the state.

The generous incentives for Ford and GM were part of an on-going battle between Brazil's state governments to attract large investments to their regions. Already a number of states have expressed interest in trying to attract the new Ford plant.

Ford's decision to cancel the plant, which was to have employed 1,500 people in the town of Gualba, comes at a time when heavy investment by most of the world's largest carmakers has created significant over-capacity in the Brazilian market.

GM, which has already started construction of its plant in Rio Grande do Sul, is still negotiating with the government over subsidies.

Hicks Muse in soccer deal

By Geoff Dyer

Hicks Muse Tate & Furst has signed a contract to manage the business activities of Corinthians, one of Brazil's biggest soccer clubs, in a deal that involves the US private equity group investing about \$510m (US\$65m) over the first year, writes Geoff Dyer.

Hicks Muse will run the merchandising, television rights, ticket sales and sponsorship for the São Paulo team, which has an estimated 17m supporters in Brazil.

The company is to also build and operate a new stadium.

Officials at Corinthians, the current national league champions, said the contract was for 10 years.

CBS reverses fortunes with unexpected profit

By Christopher Perkins in Los Angeles

The reversal of fortunes at the CBS broadcast television network is in full swing. Mel Karmazin, chairman, said yesterday.

Reporting a first-quarter group profit instead of the loss expected by most Wall Street analysts, he said the network was well-placed to capture its biggest share of the US viewing audience since the 1993-94 season.

The CBS group, which includes television stations, cable networks, an 82 per cent stake in Infinity Broadcasting and a clutch of internet holdings, earned \$25m, or 4 cents a share, from continuing operations - a third more than last time, including a \$366m gain from dis-

posals, profits were \$367m, or 55 cents a diluted share.

Revenue fell more than 9 per cent from \$1.95bn to \$1.77bn. However, last year's total was inflated by advertising sales associated with Winter Olympics broadcasts. Excluding that boost, revenues for the latest quarter increased 18 per cent.

Operating cash flow, the popular measure of progress for media groups with heavy debts, improved 3.3 per cent to \$280m, or 55 per cent excluding the Olympics effect.

The company said the improvement was due to a 51 per cent advance at Infinity, and its television business, where cash flow rose an adjusted 25 per cent.

Results were helped by a reduction in interest pay-

ments from \$75m to \$51m on debts of about \$1bn, which had been cut by the proceeds from its sale to the public last December of a 17 per cent stake in Infinity.

CBS said yesterday it had agreed to pay \$160m in cash for a TV station in Austin, Texas, the second fastest-growing market in the US.

The purchase will give CBS 14 owned and operated stations and 34 per cent coverage of the national audience, and brings the group to within one percentage point of the permitted limit. While federal regulators have indicated they are willing to ease station ownership controls, and Mr Karmazin is a leading lobbyist for change, most of CBS's recent acquisitions have been in the internet sector.

PROPERTY MARKET

**CZECH REAL ESTATE AGENCY "LINEK" S.R.O.**

Is offering all kinds of services regarding the leasing and buying of properties in Prague and all around Czech Republic. We have a large offer of the commercial properties and land.

We also organise complete legal services necessary to set up a company in Czech Republic.

We speak English, Russian, Croatian (Serbian), and Czech.

For more information please contact us.  
Tel: +420 603 155 021,  
Fax +420 601 220 415,  
e-mail: zarko@paegas.vol.cz

**SOUTH OF FRANCE**

**Building Land FOR SALE**

2.5 Hectare park  
120 apartments + 6 houses  
Road and services in  
Close town centre  
Sea views

PRIME SECURITIES LIMITED  
Tel: 00 44 1903 212286  
Fax: 00 44 1903 217135  
or  
Tel: 00 33 494 38 75  
Mobile: 00 33 614 63 89 30

**Well established quality Nursing Home Business (South West)**

Registered or 40+ residents, high occupancy levels, excellent profits, planning consent to extend.

Additional related businesses available subject to separate negotiation.

Offers over £1,000,000

Contact:  
Nick Worman or Nick Richards

Chesterton

01222 640111

**HIGH QUALITY B1 PROPERTY INVESTMENTS - from £200,000 -**

Southern England  
Tel no. 0118 950 8366  
Gross yields from 11%  
Fax no. 0118 950 5857

www.countryestates.co.uk

**AUCTION**

Located in  
Barnhill, 10 miles from Glasgow, 10 miles from Edinburgh  
This is a unique opportunity to acquire a large, well established, and profitable business, with a long history of success. The business is a leading provider of property and construction services, and has a strong reputation in the industry. The business is a leading provider of property and construction services, and has a strong reputation in the industry.

**RAMS HILL GOLF CLUB & COUNTRY CLUB COMMUNITY**

Call 480-609-4670 for a Free Color Brochure  
Due Diligence Package Available

**STONEHENGE**

English Heritage and the National Trust are offering the opportunity for a commercial operator to design, build, finance and operate the new Visitor Centre for Stonehenge, one of the most powerful landmarks in the world.

Initial proposals by 9th July 1999.

**DIZ Debenham Thorpe Financial**

+44 (0)171 408 1161  
Direct line: 0171 643 6440  
Email: derek.burder@dtz.co.uk

A MONUMENTAL VISITOR EXPERIENCE

**Forthcoming Commercial Property Surveys**

Starting this June, the FT will be launching a new series of property surveys which will look at important developments in a number of key property sectors and also at latest trends in the world's biggest cities.

London	June 4 1999
Transportation Property	July 2 1999
Property in Eastern and Central Europe	September 3 1999
Office Parks	October 1 1999
New York	November 5 1999
Retailing Property	December 3 1999
Tokyo	February 4 2000
Urban Regeneration in Europe	March 3 2000
Paris	April 7 2000
City Centre Living	May 5 2000
Frankfurt	June 2 2000
Multi-user Development	July 7 2000

**Put your prime space in our prime space.**

For further details contact  
**Louise Hawker**  
Tel: +44 171 873 3211  
Fax: +44 171 873 3098  
Email: louise.hawker@FT.com

**FINANCIAL TIMES**  
No FT, no comment.



## COMPANIES &amp; FINANCE: EUROPE

GERMANY SALES AND PROFITS AT BASF AND HOECHST FALL BECAUSE OF GLOBAL PRICE PRESSURES

## Chemicals groups hit by oversupply

By Uta Harnischfeger  
in Frankfurt

First-quarter earnings from BASF and Hoechst yesterday confirmed that Europe's pharmaceutical and chemical makers face a rough ride, with chemical activities still badly hit by global oversupply and price pressures.

Both companies reported declining sales and profits in the period, with Hoechst showing slightly more resilience as it countered the fall in chemicals with improved results at its pharmaceutical unit, Hoechst Marion Roussel.

BASF and Hoechst's earnings figures mostly came in below analysts' expectations. BASF's first-quarter sales

were down 8.2 per cent to €6.8bn (\$7.2bn) from €7.4bn, while operating profit fell 16.5 per cent from €694m to €571m. Hoechst, meanwhile, reported a 9 per cent drop in its sales down to €4.2bn from €4.6bn.

Pre-tax profit fell 57 per cent to €158m from €365m, mainly due to the absence of income from divestments. In 1998, Hoechst's pre-tax profit was boosted by DM1.3bn (€665m, \$707m) from divestments.

For the full year, Hoechst said that operating profit would remain flat, with a double-digit growth in its life science business expected to balance out declines in industrial activities. Although analysts are hopeful

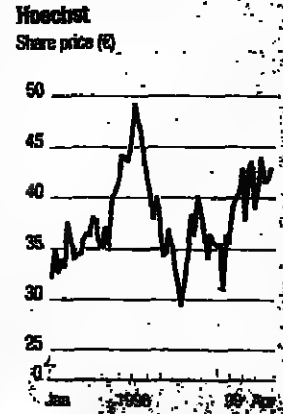
about HMR, they were disappointed about declining first-quarter sales in Hoechst's other life science divisions, AgriVet - which fared badly in the US - and Hoechst Roussel Vet.

BASF is also centering its hopes on a turnaround in the chemicals sector and growth in its pharmaceuticals business, with which it plans to counter future cyclical downturns. While BASF's pharmaceuticals activities are still in the investment phase and have so far contributed little to profit, analysts expect them to achieve a breakthrough next year.

BASF, which has the strongest exposure to base chemicals among Germany's big three chemical makers,

was particularly hurt by falling gas and oil prices in Europe and declining chemical margins in Asia and North America. At its annual shareholders meeting yesterday, Jürgen Strube, chairman, said the downturn in the chemicals industry has reached the bottom of the cycle and was seeing the first signs of recovery.

The poor performance of Hoechst's industrial activities, principally its specialty chemicals business Celanese, as well as technical polymers Ticona and its Messer unit, is posing a problem since Hoechst plans to divest its industrial activities as part of its merger plans with France's Rhône-Poulenc. "This is worrisome since it



raises the question of how the merger will be pulled through," said Christiane Dienhart at HypoVereinsbank in Munich.

France  
Telecom  
may end  
Bonn ties

By Ralph Atkins in Bonn

Deutsche Telekom, the Bonn-based telecoms giant, last night expressed regret at clear indications that France Telecom, its international partner, is drawing up plans to sell its 2 per cent stake in the German former state monopolist.

France Telecom said it would dispose of its stake, acquired last July, if Deutsche Telekom succeeded with its plans to merge with Telecom Italia of Italy.

The possible German-Italian alliance has incensed the French group. It described it as an "explicit violation" of its agreement with Deutsche Telekom.

In an interview with Le Monde, the French newspaper, Michel Bon, France Telecom chairman, said the French group intended to defend its interests and signalled it could move back into the German market. Deutsche Telekom said it regretted the "escalation" of the dispute.

The breaking up of its links with France Telecom would be a serious setback for Deutsche Telekom, which has argued its merger with Telecom Italia would strengthen its other international alliances.

A rift between Bonn and Paris would heighten speculation over the future of Global One, an international joint venture between France Telecom, Deutsche Telekom and Sprint of the US.

It was unclear last night whether Deutsche Telekom would sell the 2 per cent stake it holds in France Telecom.

At the time of last July's share swap, Mr Bon said the two companies wanted "to converge as quickly as possible our developments on European markets, invest several billion euros a year there together and build a real pan-European operator."

## NEWS DIGEST

## BANKING

## LVMH surprise bidder for stake in Crédit Lyonnais

LVMH, the luxury goods group chaired by Bernard Arnault, was the surprise inclusion on the list of bidders for a core shareholding in Crédit Lyonnais, the soon-to-be-privatised French bank. There were 10 bids on the list, published yesterday, with the rest coming from financial institutions. LVMH made no comment on why it submitted a bid, but it has a longstanding banking relationship with Lyonnais. The full list is: AGF, Axa, Banca Intesa, Banco Bilbao Vizcaya, Banques Populaires, Crédit Agricole, Commerzbank, Crédit Commercial de France, LVMH and Paribas. Core shareholders are to be offered up to a third of Lyonnais' capital after participating in an FF8bn (€1.2bn, \$1.3bn) capital increase. Each investor will be limited to a maximum stake of 10 per cent. The state will retain just under 10 per cent. Pre-selection of shareholder partners will take place before the end of May, David Owen, Paris

## AIRLINES

## Lufthansa weak in first quarter

Lufthansa's weak first-quarter earnings and a moderately pessimistic outlook for the full year yesterday were proof of the continued downward pressures on price margins in the industry. Contrary to analysts' expectations, the German flag carrier said yesterday that it would not be able to reach last year's profit levels. For the first quarter, Lufthansa reported a 4.7 per cent rise in turnover to DM5.2bn (€2.6bn, \$2.8bn) from DM5bn and said that operating profit fell 61.1 per cent to DM63m from DM162m last year. Despite an 8.3 per cent rise in capacity sold, the international price pressures caused by overcapacities have led to further declines in margins. Peter Schilling, analyst at Delbrück, said it was widely known that 1999 would be a tough year. But he expected price pressures to ease in 2000 and 2001. Separately, Lufthansa said yesterday that it signed a \$1.6bn purchase order for 60 Fairchild/Dornier 728 jets and secured options for a further 60. Deliveries are scheduled to start in 2002. Uta Harnischfeger, Frankfurt

## COMPUTER PRODUCTS

## Surge in Logitech sales

Logitech, the world's biggest manufacturer of computer mice, has signalled its re-emergence as a computer peripheral growth stock with a 62 per cent jump in fourth-quarter sales, to \$139.6m. This follows a 46 per cent jump in third-quarter sales reflecting the launch of several new products for Christmas. In the first half of its last financial year Logitech posted a \$2.4m operating loss after a 14 per cent drop in sales to \$162m. However, Guernio de Luca, an ex-Apple executive who took over as chief executive last year, has backed up Logitech's strength in computer mice with new retail products, such as cordless keyboards and entertainment devices, in an attempt to restore the company's image as a growth stock. The group's full-year operating profits slipped 1 per cent, to \$16.2m on a 15 per cent rise in sales. William Hall, Zurich

SWEDEN LEADING LENDER SEES PRESSURE ON RETAIL SIDE

## Growth in merchant banking helps SEB

By Tim Burt in Stockholm

SEB, one of Sweden's leading lenders, yesterday reported a modest underlying increase in first-quarter profits as strong growth in merchant banking offset margin pressure on the retail side.

The bank, formerly Skandinaviska Enskilda Banken, said operating profits rose from SKr1.52bn (\$181m) to SKr1.63bn in the first three months of the year on total income down from SKr1.07bn to SKr1.54bn.

However, pre-tax profits fell 29 per cent to SKr2.04bn from SKr2.85bn. But the bank said these figures were distorted by the absence of 1998 contributions from its Tryg-Hansa share portfolio. On a comparable basis, net interest earnings rose by 5 per cent to SKr1.85bn and net commission income grew by 13 per cent to SKr1.81bn.

Nevertheless, SEB admitted its profits from retail dis-

tribution had fallen due to lower interest rates and intense competition. Profits in that division fell from SKr318m to SKr250m.

That was offset by a strong quarter in merchant banking, contributing SKr664m, up from SKr604m last time. While profits were flat or down slightly in asset management, pensions and financial services, the bank said it had continued to take market share from rivals.

Earnings per share, including one-off items, fell from SKr3.34 to SKr2.51.

SEB's mixed performance contrasted with a 30 per cent rise in profits at Den norske Bank, Norway's largest lender. The bank, which last month announced a merger with state-owned Postbanken, posted operating profits up from NKr598m to NKr774m (\$89m).

It predicted that more restructuring and healthy economic growth would lead to a further improvement

this year. "First-quarter profits are healthy and income shows more rapid growth than expenses. However, we have more ambitious goals, and strict cost control is required," said Svein Aaser, DnB chief executive.

Once DnB has merged with Postbanken, Norway's fourth biggest lender, the enlarged bank is expected to have 21 per cent of Norway's private customers and around 18 per cent of the business market. Net interest income at DnB rose by NKr121m to NKr1.12bn. Earnings per share rose from NKr0.69 to NKr0.94.

Skandia, Sweden's largest insurer, reported a sharp fall in operating profits from SKr2.84bn to SKr1.25bn in the first quarter on total sales up from SKr15.5bn to SKr27.3bn.

The downturn was due mostly to the impact of stock market turmoil and falling asset income in property and casualty insurance.

SAirGroup takes  
Panalpina stake

By William Hall in Zurich

SAirGroup, parent of Swissair, is taking a 10 per cent stake in Panalpina, Europe's biggest airfreight broker, and setting up the first fully integrated door-to-door air cargo operation with annual revenues of SF800m (\$829m) a year.

SAirGroup's decision to buy a stake in the private Swiss group, and inject its marginally profitable Jacky Maeder air freight forwarding business into the new venture is the latest sign of consolidation in Europe's freight forwarding industry where margins are under considerable pressure.

SAirGroup's SAirLogistics and Panalpina will found SwissGlobalCargo, which they claim will be the first air cargo company to provide fully integrated door-to-door airfreight services with time guarantees and no weight restrictions. It will also focus on the courier, express and parcels sector. Panalpina will own 55 per cent of the joint venture

and provide the chief executive, and SAirLogistics will own 45 per cent. The new company plans to generate SF1bn of revenues within three years.

Panalpina is SAirLogistics' biggest customer and Philippe Brugger, SAirGroup chief executive, said that taking a 10 per cent stake in Panalpina underlined his belief that the partnership "may extend far further and deeper than SwissGlobalCargo alone".

SAirLogistics earned SF33m before interest and tax on SF1.3bn of revenues in 1998 and has been hit by a rapid decline in rates following the Asian crisis. Panalpina increased its operating profits by 17 per cent, to SF98.4m, on marginally lower revenues of SF94.1bn in 1998.

A study by Boeing says the air cargo market is set to grow from 180bn tonnes kilometres a year to 450bn tonnes kilometres over the next 15 years. The share of fully integrated service providers is set to rise from 4 per cent to 30 per cent.

NOTICE OF REDEMPTION  
AND  
TERMINATION OF CONVERSION RIGHT  
APPLE COMPUTER, INC.

To Holders of  
6% Convertible Subordinated Notes due June 1, 2001  
Redemption Date: June 1, 1999  
Conversion Right Expires 5:00 p.m., New York City Time June 1, 1999  
\*CUSIP No. 037833 AC 4  
\*CUSIP No. 037833 AE 0  
\*CINS No. U03783 AA 2  
\*ISIN No. XS0066909986

Apple Computer, Inc., a California corporation (the "Company"), hereby notifies you that it has elected to call for redemption on June 1, 1999 (the "Redemption Date"), pursuant to the provisions of the Indenture dated as of June 1, 1996 (the "Indenture") between the Company and HSBC Bank USA (formerly known as Marine Midland Bank), as trustee (the "Trustee"), all of its outstanding 6% Convertible Subordinated Notes due June 1, 2001 (the "Notes") at a redemption price of U.S. \$1,024.00 per U.S. \$1,000 principal amount of Notes (the "Redemption Price"), together with accrued and unpaid interest from December 1, 1998 to the Redemption Date. The Redemption Price will become due and payable on the Redemption Date upon surrender of the Notes, together with the cash or Notes held in bearer form with all coupons appertaining thereto maturing after the Redemption Date, to HSBC Bank USA, Midland Bank plc or Banque Internationale à Luxembourg S.A., the conversion agents and paying agents with respect to the Notes (collectively, the "Agents"), at the addresses set forth in this Notice. Interest on the Notes will cease to accrue from and after the Redemption Date (unless the Company shall default in the payment of the Redemption Price, including accrued interest). All Notes outstanding as of the close of business on the Redemption Date will be deemed to be redeemed by the Company, whether or not they have been surrendered for redemption. Unless otherwise defined herein, capitalized terms are used herein as defined in the Indenture.

At any time prior to 5:00 p.m., New York City time, on June 1, 1999, the Notes may be converted into shares of the Company's Common Stock, no par value per share (the "Common Stock"), upon surrender of the Notes (along with a properly executed conversion notification in compliance with the Indenture, together (in the case of Notes held in bearer form) with all coupons appertaining thereto maturing after the conversion date) to the Agent, at the addresses set forth in this Notice. The number of shares of Common Stock issuable upon conversion of the Notes is determined by dividing the principal amount of the Notes to be converted by the conversion price of U.S. \$29.305 per share. Based on the foregoing formula, each U.S. \$1,000 in aggregate principal amount of Notes is convertible into 34.2407 shares of the Company's Common Stock. Notes are convertible in whole or in part in any integral multiple of U.S. \$1,000. Cash will be paid in lieu of any fractional share of the Company's Common Stock upon conversion. If you elect to convert your Notes into Common Stock, on or after May 15, 1999 (the "Record Date"), the interest so payable on June 1, 1999 (the "Interest Payment Date") with respect to any Note which has been called for redemption on the Redemption Date, shall be paid to the Holder of such Notes upon surrender (along with, in the case of any Bearer Note, coupons appertaining thereto maturing after the date of conversion) for conversion, in an amount equal to the interest that would have been payable on such Note if such Note had been converted as of the close of business on the Interest Payment Date.

ALL NOTES NOT SURRENDERED FOR CONVERSION INTO COMMON STOCK PRIOR TO 5:00 P.M. NEW YORK CITY TIME, ON JUNE 1, 1999, WHEN THE CONVERSION RIGHT EXPIRES, WILL BE DEEMED TO BE REDEEMED BY THE COMPANY ON THE REDEMPTION DATE, WHETHER OR NOT THEY HAVE BEEN SURRENDERED FOR REDEMPTION.

If you convert your Notes into Common Stock, you will receive, as promptly as practicable, stock certificate(s) for the number of shares issuable as a result of your conversion along with a check for payment of any fractional share and accrued interest if you elect to convert after the Record Date.

On April 23, 1999, the last reported sale price of the Common Stock on the NASDAQ National Market, as reported by NASDAQ, was U.S. \$39.189 per share. Based on this price, the market value of Common Stock issuable upon conversion of each U.S. \$1,000 principal amount of Notes was U.S. \$1,341.82.

Prior to the Record Date, the Redemption Price is U.S. \$1,024.00. If you convert your Notes into Common Stock prior to the Record Date, the value of the Common Stock received upon conversion will be greater than the Redemption Price as long as the market price of the Common Stock is greater than U.S. \$29.306 per share.

On or after the Record Date, the Redemption Price plus accrued interest is U.S. \$1,054.00. If you convert your Notes into Common Stock on or after the Record Date, the value of the Common Stock received upon conversion will be greater than the Redemption Price plus accrued interest as long as the market price of the Common Stock is greater than U.S. \$30.782 per share.

You are urged to obtain current market quotations for the Common Stock.

In summary, you have the following three alternatives with respect to your Notes:

1. Prior to 5:00 p.m., New York City time, on June 1, 1999, when the conversion right expires, you may convert your Notes into Common Stock. This alternative is available only if the Agent receives your Notes, properly completed and executed conversion notification and (if applicable) any required coupons in compliance with the Indenture prior to 5:00 p.m., New York City time, on June 1, 1999.
2. You may surrender your Notes for redemption at the Redemption Price of U.S. \$1,024.00, plus accrued interest, for each U.S. \$1,000 principal amount of Notes. All Notes outstanding as of the close of business on the Redemption Date will be deemed to be redeemed by the Company, whether or not they have been surrendered for redemption. However, you must surrender your Notes and (if applicable) any required coupons to the Agent on or after the Redemption Date to collect the Redemption Price, plus accrued interest.
3. You may sell your Notes in the open market through customary brokerage facilities or otherwise. If you wish to sell your Notes, you should consult with your own financial advisor regarding the opportunities for and consequences of such a sale.

You are urged to consult with your own tax advisor concerning the tax consequences of a conversion, redemption or sale of your Notes.

To convert your Notes or receive the Redemption Price, plus accrued interest, you must surrender your Notes (along with a properly completed and executed conversion notification and (if applicable) any required coupons in compliance with the Indenture) to the Agent as follows:

For Registered Notes (By Mail or By Hand)  
HSBC Bank USA  
140 Broadway\* 12th Floor  
New York, NY 10005-1180, USA

For Registered or Bearer Notes (By Mail or By Hand)  
Midland Bank plc  
Mariner House  
Peppers Street  
London EC3N 4DA, England  
or  
Banque Internationale à Luxembourg S.A.  
69 route d'Esch  
L-1470 Luxembourg

The method of delivery of the Notes is at your option and risk. If mail is used, certified or registered mail, properly insured, is recommended. Additional copies of this Notice of Redemption and Termination of Conversion Right may be obtained from HSBC Bank USA at 140 Broadway, 12th Floor, New York, NY 10005-1180, (telephone: (212) 658-6433) and from Midland Bank plc at Mariner House, Peppers Street, London EC3N 4DA, England (telephone: 44-(0)171-363-7801).

Dated: April 26, 1999

APPLE COMPUTER, INC.

Important Tax Information

Under the Interest and Dividend Tax Compliance Act of 1983, the paying agent is required to withhold 31% of the payment unless it is provided with a taxpayer identification number certified on IRS Form W-9.

\*No representation is made as to the correctness of the CUSIP, CINS and ISIN number either as printed on the Note or as contained herein.

## Rhodia's profitability shows good resilience

Rhodia, a global leader in specialty chemicals, announces its 1<sup>st</sup> quarter results as 44 M€, the same level as the 1<sup>st</sup> quarter of 1998. This result proves that even in a difficult economy, Rhodia's profit has good resilience due to the already implemented structural changes which permit a confirmation of its 1998 objectives.

Consolidated Financial Results	
	1998
Net sales	1,490 M€
EBITDA	219 M€
Net result after minorities	44 M€
Earnings per share	0.25 €

In line with the weak economy observed in the second half of 1998, the 1<sup>st</sup> quarter is marked by declining prices in raw materials, inventory reduction and customer expectation for low prices. Compared with same period of 1998 which benefited from strong economic conditions, the

1<sup>st</sup> quarter of 1999 shows a decline in net sales of 13% (-8% in volume and -7% in prices, under same structure without conversion effect).

Rhodia continued its structural recovery.

The restructuring measures taken in 1998 and the first effects of cross-divisional programs (Purchasing, Reduction of fixed costs) drive Rhodia's improvement: 1<sup>st</sup> quarter 1999 ratio EBITDA/Sales of 13.9% compared with 12.6% in last quarter of 1998.

Rhodia confirmed its objectives for 1999.

These initial results in 1999, combined with progress in restructuring, demonstrate Rhodia's profit potential. For the total year, the Group maintains its objective of profit improvement. Also it confirms its year 2000 goal of value creation and 15% EBITDA on sales.

The best is yet to come

Rhodia

## KB IFIMA N.V.

KB Internationale Financieringsmaatschappij N.V.

USS 150,000,000

Guaranteed Floating Rate Notes due 2011

In accordance with the Description of the Notes, notice is hereby given that for the Interest Period from April 30, 1999 to July 30, 1999 the Notes will carry an Interest Rate of 5.025% per annum.

The Interest Amount payable on the relevant Interest Payment Date, July 30, 1999 against coupon N° 53 will be USS 127.02 per USS 100,000

principal amount of Note and USS 3,175.52 per USS 250,000 principal amount of Note.

The Agent Bank  
Kreditbank  
Luxembourg

## CITICORP

U.S.\$350,000,000

Subordinated Floating Rate Notes Due November 27, 2005

Notice is hereby given that the Rate of Interest has been fixed at 5.0375% in respect of the Original Notes and 5.125% in respect of the Enhancement Notes, and that the Interest payable on the relevant Interest Payment Date May 25, 1999 against Coupon No. 163 in respect of U.S.\$10,000 nominal of the Notes will be U.S.\$38.18 in respect of the Original Notes and U.S.\$38.66 in respect of the Enhancement Notes.

U.S.\$500,000,000

Subordinated Floating Rate Notes Due October 25, 2005

Notice is hereby given that the Rate of Interest has been fixed at 5.0375% and that the Interest payable on the relevant Interest Payment Date May 25, 1999 against Coupon No. 163 in respect of U.S.\$10,000 nominal of the Notes will be U.S.\$38.18.

Global Agency and Trust Services,  
Citibank, N.A., London  
April 30, 1999

CITIBANK

## The COOPERATIVE BANK

£75,000,000

Subordinated Floating Rate Notes 2000

Holders of Floating Rate Notes of the above issue are hereby notified that for the interest period from 28th April, 1999 to 28th July, 1999 the following information will apply:

1. Rate of Interest 5 1/4% per annum
2. Interest Amount payable on Interest Payment Date: £68.56  
Per £5,000 nominal or £686.62  
Per £50,000 nominal
3. Interest Payment Date: 28th July, 1999

The Co-operative Bank plc  
(Incorporated in England under the Companies Act 1948 to 1980)

Agent Bank  
Bank of America International Limited

مكتبة الامير



CONTINUED





## COMPANIES &amp; FINANCE: EUROPE

FOREST PRODUCTS NEED FOR SECTOR CONSOLIDATION HIGHLIGHTED BY DOWNWARD PRESSURE ON PRICES AND LOWER PROFITS

## Paper groups suffer from weak demand

By Nicholas George  
in Stockholm

Three of Europe's largest forest product companies reported falls in first-quarter profits yesterday, underlining the weakness in demand for paper products and the downward pressure on prices at the start of the year.

UPM-Kymmene and Metsä-Serla of Finland, and Assi-Domän of Sweden all reported lower volumes and prices in most product areas,

with European demand below last year's levels.

However recent rises in the price of pulp, the base material for most paper products, has raised hopes of selective price rises, the companies said.

The lack of price stability again highlighted the need for consolidation in the sector with industry leaders and analysts welcoming Wednesday's announcement that MoDo and SCA of Sweden were to merge their fine paper operations in a new

joint venture to be called MoDo Paper.

The fine paper market is notoriously fragmented, leading to large swings in prices at a time when European producers are under threat from low cost producers in Asia, more of which are expected to come on stream in the next few years. Juhani Niemelä, UPM chief executive, said: "I would expect the process to continue as low profitability is compelling companies to do something," he said.

UPM-Kymmene reported a pre-tax profit in the three months to March 31 of €241m (\$256m) compared with €322m a year earlier on sales of €1.92bn compared with €2.13bn.

It said that in Europe demand for paper products was expected to show only a small increase this year but with pulp markets moving back into balance there was the prospect for raising paper prices in some markets.

The company said it was preparing to list its shares on the New York stock exchange.

AssiDomän also blamed weak demand and lower prices for a fall in first-quarter pre-tax profits, down to €20.6m from €48.1m on sales of €670m compared with €804m.

The company said that in the rest of the year demand for products from its main divisions, packaging materials and packaging, was expected to strengthen. Price competition however would

remain strong in some product segments.

MetsäSerla's first-quarter profits fell to €58.6m from €95.7m on sales of €1.0bn versus €839m. The company warned that full-year results were likely to be considerably below last year's levels.

"In order to fight against the deterioration of prices we still have to refuse low priced orders and to continue to take downtime in both paper and paperboard production," the company said.

## Carlton in bid for Spanish pay TV

By Patrick Marverson and  
David White in Madrid

Carlton Communications is joining a Spanish consortium bidding for a digital terrestrial television licence in Spain in the first of what is expected to be several forays by the UK media group into the continental European pay-TV market.

Carlton helped introduce digital terrestrial TV in the UK as a co-owner of On Digital and it hopes to do the same in Spain and other leading European countries.

The consortium that Carlton has joined is led by Retevisión, the Spanish television company. It will submit its bid to the Spanish government today.

Retevisión counts on the powerful backing of Telecom Italia and Endesa, Spain's biggest electrical utility, and is seen as the prime candidate for the country's first licence for digital terrestrial TV.

Existing TV operators in Spain are excluded from the contest, which the government opened in January with the aim of reaching a decision by the end of June. The exclusion rules out bids from companies that

are already key shareholders in Spanish TV stations. These include the German Kirch group, France's Canal Plus, Italy's Silvio Berlusconi and Telefonía. Retevisión's Spanish telecommunications rival.

The new venture will add further rivalry to the competition between Spain's two satellite digital TV companies - Canal Satélite Digital, backed by Canal Plus's Spanish affiliate and the Prisa publishing group, and Vi Digital, controlled by Telefonía, Pearson of the UK, publisher of the Financial Times, holds 10 per cent of Vi Digital through its Spanish subsidiary Recolectos.

The terrestrial digital licence will cover up to 14 channels, with a minimum 32 hours a week of open-access broadcasts.

Apart from Carlton and Media Park, a production company based in Catalonia, the Planeta publishing group has been named as another potential member of the consortium. Spain has 2.5m homes that subscribe to either cable or satellite pay TV, representing about 30 per cent of the market.

## Mannesmann struggles to remain flavour of the month

German group's strategy depends on Deutsche Telekom plan to merge with Telecom Italia, writes Ralph Atkins

A month is a long time in German telecommunications. At the start of April, Düsseldorf-based Mannesmann was celebrating a coup with the DM2.25bn (€1.15bn, \$1.22bn) purchase of the o.tel.o fixed-line business, which added 1,000 corporate and 400,000 private customers to its already humming network.

With some justification, Mannesmann boasted its pre-eminence among the new rivals to Deutsche Telekom, the Bonn-based telecoms giant, including the RWE and Veba energy conglomerates from which it bought o.tel.o.

"We're clearly the number one challenger to Deutsche Telekom in Germany," said Lars Berg, the newly-appointed head of the group's telecoms activities.

Then Deutsche Telekom announced plans to join forces with Telecom Italia to form the world's second largest telecoms company and take it into a different league.

Mannesmann was no longer the hottest story in town. The question facing Mannesmann now is: just how bad is the impact?

Attention is focused on Italy where the prospective Deutsche Telekom/Telecom Italia deal - if it succeeds - could seriously set back

## Olivetti set to launch formal bid

Olivetti will today formally launch its hostile €80.4bn (\$84bn) bid for Telecom Italia as the latter intensified efforts to bring its proposed merger with Deutsche Telekom closer to reality, writes Vincent Boland. Roberto Colaninno, Olivetti chief executive, yesterday urged Telecom Italia shareholders to accept his company's tender offer, which values each share at €11.50 through a mixture of cash, equity and debt. Franco Bernabè, Telecom Italia chief executive, and Ron Sommer, his counterpart at Deutsche Telekom, were due to meet Italian government officials and Salvatore Cardinale, telecommunications minister, last night to try to overcome Italian opposition to their merger proposal.

Mannesmann's expansion.

It is supporting the hostile takeover bid for Telecom Italia by Olivetti, the Italian telecoms group. The plan is for Olivetti, if it wins, to sell to Mannesmann for DM14.9bn its stakes in Omnitel and Infostrada, the mobile and fixed-line telecoms businesses, taking Mannesmann's holdings to 55 per cent and 100 per cent respectively.

Now, Deutsche Telekom's role as "white knight" is threatening to scupper the deal. Failure to secure Omnitel and Infostrada would be the biggest setback to Mannesmann since it first pushed into telecoms as an alternative to its traditional steel pipes and engineering business.

Klaus Esser, chairman designate, has issued a blunt

warning to the German government - which still owns 72 per cent of Deutsche Telekom - that Mannesmann's interests could be violated.

But Deutsche Telekom's intrusion is unlikely to upset for long Mannesmann's ambition to become one of Europe's leading telecoms groups.

The company has something of a golden touch in the sector. Its D2 mobile network, Germany's largest, achieved pre-tax earnings of €1.3bn last year - almost entirely accounting for the group's overall result of €1.4bn. In the fixed line sector, Mannesmann has judged carefully the evolution of the market since its full liberalisation last year.

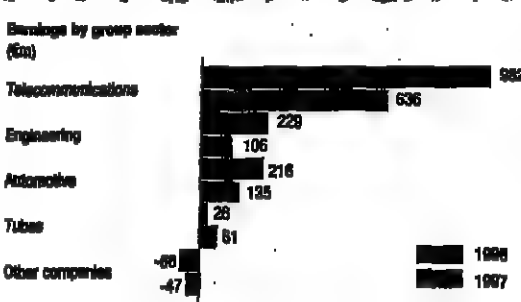
Initially Mannesmann Arcor, its loss-making fixed line business, focused on giving

customers access to its low cost services on a call-by-call basis, without pre-registering. Now Deutsche Telekom has cut its prices dramatically in response and Mannesmann is looking to become a wide-ranging service provider, including the Internet among its services.

That is why the extra capacity and customers offered by o.tel.o were important. Mr Esser wants to push into new media markets, including electronic commerce.

Italy is not the only expansion opportunity. Mannesmann could join forces with a smaller, German city telecoms carrier with a local network.

It is also interested in One-3-One, the UK's fourth mobile network. Plans for a capital increase, to raise per-



## BCI 'name to stay'

By Paul Dells in Milan

UniCredit Italiano yesterday agreed to retain the name of Banca Commerciale Italiana-BCI for the new bank formed by its proposed merger with its large Milan commercial banking rival.

The UniCredit board decision was widely seen as a further attempt to secure BCI board approval for its share exchange merger offer. It follows Wednesday's stormy BCI shareholders meeting when deep splits emerged within the bank, over the proposed merger.

BCI's board said it would continue to study the UniCredit proposal as well as an alternative advance from Banca Intesa, the other large

Milan banking group. BCI's board is expected to take a final decision on May 14.

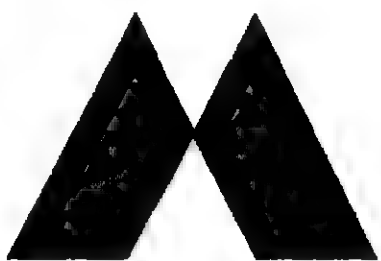
However, tensions are expected to remain high between BCI shareholders close to Mediobanca, the Milan investment bank, opposed to the UniCredit deal, and shareholders favouring the UniCredit merger. Mediobanca supports Banca Intesa as an alternative to UniCredit.

The Bank of Italy has launched a price-fixing probe into 13 leading banks the country's antitrust competition authority said. Reuters reports. During an investigation at one bank, Cariplo, the central bank found documents referring to "The Group of Banking Friends", the antitrust authority said.

This announcement appears as a matter of record only and is neither an offer to sell nor a solicitation to buy any of the securities referenced herein.

New Issue

April 1999



## THE KOREA DEVELOPMENT BANK

US\$1,000,000,000  
7.125% Global Notes due 2004

Joint Bookrunners

J.P. Morgan &amp; Co. Chase Securities Inc.

Co-Lead Managers

Barclays Capital  
Credit Suisse First Boston  
Lehman Brothers  
SG

BT Alex. Brown  
Hyundai Securities America Inc.  
Salomon Smith Barney  
Tokyo-Mitsubishi International plc  
Warburg Dillon Read LLC

J.P. Morgan

CHASE

## Eni S.p.A.

Registered Office: Piazza Enrico Mattei, No. 1, Rome - Italy  
Company Share capital Lit. 8,000,141,433,000 fully paid up  
Rome Companies Register (Court of Rome) Number 0086972  
R.E.A. Rome No. 754453  
Financial Information: ILLC Number 24172  
Tax Identification Number 00484960288 VAT Number 0090811004



## Notice of Shareholders' Meeting

Shareholders of Eni S.p.A. are hereby invited to attend the Ordinary Shareholders' Meeting, which will be held in Castelgandolfo (Rome - Italy), Viale Bruno Buozzi, No. 14, on June 3, 1999 at 10:00 a.m. local time on first call and, if necessary, on June 4, 1999 at the same time and location on second call.

## Agenda

1. Financial Statements at December 31, 1998, Consolidated Financial Statements at December 31, 1998, Report of the Directors on the course of the business, Report of the Board of Statutory Auditors and Report of the Independent Auditors, Resolutions related thereto.
2. Allocation of net income and of Distributable Reserves.
3. Determination of the number of the Board of Directors' members.
4. Determination of the Directors' term.
5. Appointment of Directors.
6. Appointment of the Chairman of the Board of Directors.
7. Determination of the remuneration of the Chairman of the Board of Directors and that of the Directors.
8. Appointment of Statutory Auditors.
9. Determination of the remuneration of the Chairman of the Board of Statutory Auditors and that of the effective Auditors.
10. Fee adjustment requested by the Independent Auditors for the new commitments incurred pursuant to Legislative Decree No. 58/98.

Pursuant to the By-laws, Directors and Statutory Auditors will be appointed from lists, with the exception of the Director and the effective Auditor appointed by the Minister of Treasury, Budget and Economic Planning in agreement with the Minister of Industry, Trade and Crafts. Pursuant to the By-laws, said Auditor will be appointed Chairman of the Board of Statutory Auditors. Shareholders representing at least 1% of the Company's capital stock may present a list of candidates for the appointment of Directors and Statutory Auditors. The current Board of Directors may present a list of candidates for the appointment of Directors. Lists shall be deposited and published according to the procedures set in the By-laws.

Admission to the Meeting will be granted to Shareholders who have requested the notification of attendance pursuant to Article 34 of Consob Deliberation No. 11768 dated December 23, 1998 within five days prior to the Shareholders' Meeting on first call.

In order to take part to the Shareholders' Meeting, Shareholders holding shares not yet dematerialised, shall previously deliver said shares to a financial intermediary for their deposit with Monte Titoli S.p.A. (the Italian Securities Register Centre) and their subsequent dematerialisation, pursuant to Article 51 of Consob Deliberation No. 11768 dated December 23, 1998, and request the above mentioned notification of attendance. The reports on the proposals of resolutions of the Board of Directors to the Shareholders on each item of the Agenda and the documentation regarding item 1) of the Agenda will be deposited at the Company's Registered Office and with the Borsa Italiana S.p.A. (the Italian Stock Exchange) by the terms set forth by current legislation and shall remain at the Shareholders' disposal until the date of the Meeting. Votes may be exercised also by mail pursuant to current legislation. Shareholders willing to exercise their vote by mail

are entitled to request the Vote by Mail Card and a pre-addressed return envelope to the Company or the following Depositaries: Banca Commerciale Italiana S.p.A., Banca Nazionale del Lavoro S.p.A., CARIPLO-Cassa di Risparmio delle Province Lombarde S.p.A., Banca Monte dei Paschi di Siena S.p.A., Banca di Roma S.p.A., Banca d'Adriano S.p.A., Solid Sim S.p.A., Citibank N.A., Morgan Guaranty Trust Company of New York.

Envelopes containing the Vote by Mail Card, duly filled in and signed, and the Admission Ticket Card shall be received by Eni S.p.A. - Segreteria societaria, Piazzale Enrico Mattei, 1 - 00144 ROME, Italy by June 1, 1999. The vote by mail must be exercised personally by the person entitled to vote.

Beneficial Owners of ADRs, listed on the New York Stock Exchange, each ADR representing ten ordinary Shares issued by Eni S.p.A., who have deposited their ADRs with the Morgan Guaranty Trust Company of New York by May 24, 1999 will be entitled to participate at the Meeting or to exercise votes by mail, after having complied with the deposit and registration requirements for Shares held. Beneficial Owners who have taken advantage of Proxy Vote or Vote by Mail options are entitled to assist at the Meeting upon written request to be made to the Morgan Guaranty Trust Company of New York, ADR Depositary.

In order to simplify controls of powers entailing the participation to the Shareholders' Meeting, people who intend to participate at the Meeting as legal or voluntary representatives of Shareholders or other people entitled to take part in it are requested to deliver to Eni S.p.A.'s Corporate Secretary the deeds entailing them to said participation, by mail, also in copy, or by fax, at least two days before the date of the Meeting on first call.

Experts, financial analysts and journalists wishing to attend the Meeting shall deliver, by mail or fax, a specific request to Eni S.p.A.'s Corporate Secretary at least two days before the date of the Meeting on first call.

Eni S.p.A.'s Corporate Secretary is available for any further information Shareholders may need at the following numbers: Telephone + 39 06 59822421 - Fax + 39 06 59822233.

The Chairman of the Board of Directors  
Mr. Guglielmo Antonio Claudio Moscato

To timely comply with admission and registration procedures, Shareholders are kindly requested to arrive at the Meeting in advance with respect to the starting time of the Meeting itself. Registration for the Meeting will take place at the same location of the Meeting starting at 9:00 a.m.

Upon reservation, a shuttle service will be made available to Shareholders from Eni S.p.A.'s Registered Office, located in Piazzale Enrico Mattei, 1, Rome, to Viale Bruno Buozzi, 14, Castelgandolfo, and return. The service will be operated from 8:00 a.m. to 9:00 a.m. and at the end of the Meeting.

Reservation shall be received by Eni S.p.A.'s Corporate Secretary through the aforementioned telephone and fax numbers no later than June 1, 1999.

The reports on the proposals of resolutions of the Board of Directors to the Shareholders and this Notice are available on www.eni.it.

Handwritten signature: J. P. Morgan



# COMPANIES & FINANCE: ASIA-PACIFIC

TELECOMMUNICATIONS SOUTH KOREAN FIXED-LINE TELEPHONE OPERATOR CRUCIAL TO AMBITIONS OF BOTH CONGLOMERATES

## LG, Samsung in takeover fight for Dacom

By John Burton in Seoul

Dacom, a leading South Korean telephone operator and internet provider, yesterday became the target of a takeover battle between LG and Samsung, two of the nation's biggest electronics groups.

The share price of Dacom rose by nearly 15 per cent to close at Won109,000 after Samsung increased its stake in Dacom to block a takeover bid by LG. Dacom is the

smaller of Korea's two fixed-line telephone companies after state-run Korea Telecom.

Dacom is considered crucial to the ambitions of both conglomerates, or chaebol, to expand their telecoms and information businesses.

LG this week confirmed its intention to buy Dacom after selling its memory chip unit to Hyundai. As part of the \$2.1bn chip deal, Hyundai agreed to transfer its 5.25 per cent stake in Dacom to LG.

Samsung responded immediately by raising its equity stake in Dacom to 20.6 per cent, after buying an additional 2.75 per cent stake from the Daewoo group, which is selling assets to reduce large debts. Samsung is Dacom's single largest shareholder.

LG directly owns less than 5 per cent of Dacom, but with Hyundai's shares and those of friendly stockholders, LG said it controlled about 40 per cent.

LG would be likely to win the takeover battle if it was able to secure a 16.7 per cent stake held by Tongyang Group.

Analysts say LG might call on British Telecom as a potential foreign partner in its bid to control Dacom. BT last year bought a 2.5 per cent stake in LG Telecom, its personal communications network.

LG has long had ambitions to acquire Dacom, but it agreed in 1996 to limit its

holding to 5 per cent in return for a government licence to operate LG Telecom.

The government imposed the Dacom shareholding limit on LG because of worries about LG's dominance in the telecoms service sector.

But officials appear ready to abolish the limit because of LG's co-operation in selling LG Semicon to Hyundai in a state-sponsored merger to reduce overcapacity in

main industrial sectors.

LG has also expressed interest in acquiring Hanaro Telecom, a local telephone operator, and Onse Telecom, Korea's third international long-distance operator.

The combination of these telecoms operators with Dacom would consolidate the fragmented telecoms service market and make LG a significant competitor to Korea Telecom, while providing business for LG's telecoms equipment unit.

## Astra upbeat about debt restructuring

By Sander Thoenes in Jakarta

Astra International, the Indonesian car maker, yesterday said it was assured of gaining creditor approval for restructuring \$1.15bn of debt, despite a failure to reach a quorum for holders of its dollar bonds.

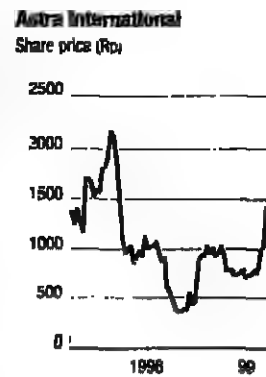
The news sent Astra's shares down 6.8 per cent. But after trading had ended, the company announced it had already obtained approval from bank creditors, holders of rupiah bonds and other non-bank creditors representing 63.96 per cent of Astra's debt.

This is just short of a simple majority of creditors holding two-thirds of its debt to get its restructuring proposal approved in a commercial court, which would make it binding for all creditors.

Bank creditors had headed in their votes by Wednesday and rupiah bond holders met in Jakarta yesterday, but holders of \$450m in dollar bonds failed to reach a quorum in Singapore yesterday.

Rini Soewandi, Astra president, said the quorum for 75 per cent could not be met as the dollar bonds were actively traded, making the holders hard to pin down.

The quorum in the second meeting, scheduled for May



14, will be much lower, 25 per cent.

Ms Soewandi said the remaining bank creditors could still send in their vote as well, leaving some time for finalising the agreement by the end of June, as planned.

"We will definitely reach more than 70 per cent creditor approval," she added. Astra proposed to split its debt into three tranches, with payment periods of three to 7½ years and a detachable warrant equalling 10 per cent of Astra's shares accompanying the last set of payments.

Some \$705.4m and Rp701.7bn (\$82.4m) of the total would fall in the second tranche, falling due in 6.5 years with interest starting at the end of the fourth year.

## Winners and losers among the petit fours

It is the start of a new era for Sally Aw's publishing group, writes Louise Lucas

It was not the victory a clutch of aggrieved minority shareholders had hoped for. Ownership of Sing Tao, one of Hong Kong's oldest publishing groups, yesterday passed to the Asian arm of the blue-blooded Lazard group with barely a murmur.

The battle for control of Sing Tao had promised to be lively, complete with jilted suitors and agitation over the generous terms being offered to Sally Aw, chairman, whose 50.04 per cent stake now passes to Lazard Asia. But there was no brawling under the chandeliers. Minority shareholders seemed more interested in the bean paste petit fours, and dined in and out of the special general meeting to partake of Sing Tao's hospitality. They will now be offered the option of selling their shares - which closed yesterday at HK\$1.53 - to Lazard Asia for HK\$1.25.

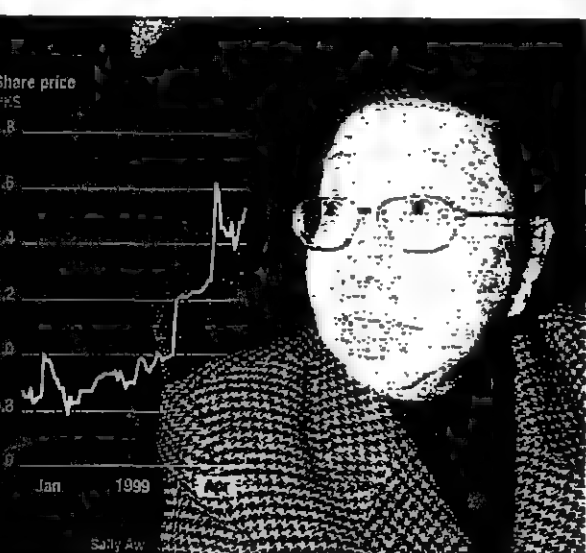
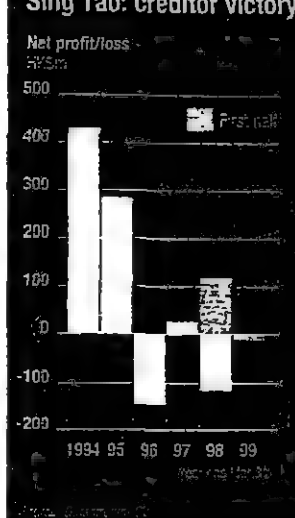
Other victors emerged - Sing Tao's creditors. Charles Ho, a tobacco tycoon who is owed HK\$295m (US\$38m) by Sally Aw, will recoup some HK\$300m of that under the Lazard deal.

Mr Ho professed himself "very happy" at the result of yesterday's meeting. Shareholders voted overwhelmingly in favour of the conditions, which give Miss Aw a HK\$30m a year consultancy fee and HK\$55m loan, and pave the way for Lazard Asia to mount a general offer.

Under the terms of the deal, part of Miss Aw's proceeds will go directly to Mr Ho, who in turn will drop bankruptcy proceedings against her.

"Hong Kong has not faced a lot of situations where creditors of controlling

Sing Tao: creditor victory



shareholders [work out] how they deal with them. I think there will be a more frequent occurrence of this in the next few months. It is a question of creditors becoming conscious of what they can do," said Lawrence Lee, [the collapsed pan-Asian investment bank] and some of the larger workouts like Citic to be traded over time," he says.

"Some banks simply need to get out, and if people are prepared to buy on a speculative basis that gives another option - and gives the banks liquidity."

Yesterday's meeting marked a small victory for creditors, but it disappointed others. Spurred suitors had bought up shares in the market: a complaint for breach of contract was filed with the Hong Kong authorities; and an open letter signed "Sequoia Trust" urged minority shareholders to scupper the deal.

Sequoia Trust criticised the deal as overly generous to Miss Aw and not generous enough to minority shareholders. Quoting the offer document, it said the net asset value at February 28 was HK\$2.71, sharply higher than the HK\$1.25 being

offered by Lazard Asia.

However, the offer is not compulsory, and Lazard Asia plans to retain Sing Tao's public listing.

Lazard Asia aims to diversify Sing Tao of non-core businesses, rebuild the newspaper business and expand the commercial printing.

Patrick Cheung, chief executive of Lazard Asia, said the deal "marks the beginning of a new era for Sing Tao".

He gave credit to Miss Aw, who inherited Sing Tao - part of a sprawling empire founded on Tiger Balm, a menthol cure-all - from her father.

However, Miss Aw failed to inherit her father's business nous, and made several ill-timed forays into overseas property and other ventures.

Her newspapers, operating in a highly competitive marketplace, came further adrift when Hong Kong went into recession.

A scam to inflate circulation of the Hong Kong Standard was uncovered by the anti-corruption body, and earlier this year three executives were prosecuted and subsequently jailed. Controversially, Miss Aw was never prosecuted.

## Indian telecoms groups strengthen

By Krishna Saha in Bombay

India's two big telecommunications companies announced healthy profits for the year to March 31 on increased phone penetration and rising call traffic.

Videsh Sanchar Nigam (VSNL), the monopoly international carrier, reported a 37 per cent jump in pre-tax profits to Rs19.2bn (\$448m). The company said its revenues from value added services rose 71 per cent, with 151 per cent growth in internet revenues to Rs1.7bn.

Mahanagar Telephone Nigam (MTNL), the main telephone company in Delhi and Bombay, unveiled a less spectacular 19 per cent rise to Rs19.8bn. Its line growth fell.

Higher salaries following a public sector pay deal increased costs by 12.3 per cent to Rs27.5bn.

The results are the last under India's old tariff regime. New rates set out by the independent regulatory authority come into force in May.

Analysts expect the new tariff structure to boost VSNL's profits.

VSNL earns Rs10 per call under a revenue sharing agreement with the government, regardless of the rate charged to the caller.

The outlook for MTNL under the new tariff regime is more mixed. Its revenues are based on the rate charged to the caller, less 25 per cent passed on to the government.

THAILAND TWO DEALS AGREED THIS WEEK COULD PAVE THE WAY FOR OTHERS

## Lifeline for banking system

By Ted Garbade in Bangkok

It may have taken a while, but suddenly there is hope for the Thai banking industry.

Yesterday's announcement that Siam Commercial Bank had succeeded in raising \$1.75bn in new capital combined with Wednesday's purchase of Nakornthon Bank by the UK's Standard Chartered Bank demonstrated that one of the two main ingredients necessary for financial system stability - lots of new cash - does indeed exist.

Investors had once again begun to question the stability of Thailand's financial system, burdened as it is with some \$12,500bn (\$65.5bn) in bad debt as the government's capital assistance plan for ailing commercial banks failed to find large applicants in the first

six months after being announced by Tarrin Nimmanheminda, the finance minister.

The delays to the sale of three recently nationalised banks added to such worries.

But Siam Commercial's success in protecting its shareholders and most of its top executives from tough government requirements may pave the way for others to follow.

"This is an incredible vindication of Tarrin's approach," said Scott Ferguson, head of Asia Equity Capital Markets at Salomon Smith Barney, global co-ordinator of the Siam Commercial offering.

Most immediately helped are Bank of Ayudhya and Thai Military Bank, the remaining big Thai banks in need of significant capital injections.

Analysts say they will be a

tougher sell to the market than Siam Commercial but that at least there is now a blueprint they can follow which addresses their concerns and, with the right kind of sales pitch, allows them to raise significant amounts of cash.

"There is just a huge wall of foreign institutional money waiting for a good story out of Thailand," said one investment banker with close knowledge of the Siam Commercial Bank deal.

Following the Nakornthon sale, it is crunch time for the likes of HSBC, Citibank and others that have expressed a desire to take over a Thai commercial bank.

The government is committed to sell three banks in the next several months - initial bids for the first one, Radanasin Bank, will be accepted on Monday.

Yet the other main ingre-

dent to a banking recovery, loan demand and the profitability that goes with it, has yet to appear.

"We've just about fixed the supply side of the problem. Soon banks will have enough money to cover losses on bad debt and to make new loans," said Scott Christensen of Jardine Fleming. "It's the demand side that now needs to be focused on."

Here things are less certain. Non-performing loans may have indeed peaked as claimed earlier this week by the central bank, but Thai corporations are over-leveraged and want to pay down debt rather than seek new borrowing.

In addition, with capacity utilisation still running at about 50 per cent, any new loans are small ones for working capital, not huge ones for new investment.

**ARTAL GROUP S.A.**  
Registered office: 105, Grand-Rue, L-1661 Luxembourg  
R.C. Luxembourg B 44.470

The Annual General Meeting of Shareholders of Artal Group S.A. will be held at the Banque de Luxembourg, 14, Boulevard Royal, L-2449 Luxembourg, on Saturday, May 8, 1999 at 12.00 hrs. for the purpose of discussing and voting upon the following matters:

1. Report of the Board of Directors and report of the statutory auditor;
2. Approval of the annual accounts as at December 31, 1998;
3. Allocation of results as at December 31, 1998;
4. Discharge to the directors and the statutory auditor;
5. Statutory (re)elections;
6. Miscellaneous.

Holders of bearer share certificates are requested to deposit their shares no later than May 3, 1999 at Banque de Luxembourg S.A., Luxembourg or at any other recognised bank.

The Board of Directors

**LORRAINE INVESTMENTS LUXEMBOURG S.A.**  
Registered office: 28, Boulevard Joseph II, L-1840 Luxembourg  
R.C. Luxembourg B 47.794

The Annual General Meeting of Shareholders of Lorraine Investments Luxembourg S.A. will be held at the Banque de Luxembourg, 14, Boulevard Royal, L-2449 Luxembourg, on Saturday, May 8, 1999 at 14.00 hrs. for the purpose of discussing and voting upon the following matters:

1. Report of the Board of Directors and report of the statutory auditor;
2. Approval of the annual accounts as at December 31, 1998;
3. Allocation of results as at December 31, 1998;
4. Discharge to the directors and the statutory auditor;
5. Statutory (re)elections;
6. Miscellaneous.

The Board of Directors

**FORMULA SERIES 16 JPY 1,000,000,000 FRN DUE 2000**  
(secured by Sharp Finance Netherlands BV JPY 1 Bto due 2000)  
INTEREST RATE: 0.8575%  
INTEREST PERIOD: from 30.04.1999 to 30.07.1999  
INTEREST PAYABLE PER JPY 1,000,000,000 - NOTE: JPY 2,343,403 -  
BY FUJI BANK (LUXEMBOURG)

Financial Times Surveys  
**Merseyside**  
Thursday May 27  
For further information please contact:  
Pat Looker in Manchester  
Tel: +44 161 834 9381  
Fax: +44 161 832 9248  
Email: pat.looker@FT.com  
or Haj Hattejee in London  
Tel: +44 171 873 4281  
Fax: +44 171 873 4862  
Email: haj.hattejee@FT.com

FINANCIAL TIMES  
No FT. no comment.

## Notification of Dividend

The Annual General meeting held on April 29, 1999 confirmed the distribution of a dividend of DM 2.20 per share entitled to dividend from the profit for the financial year 1998.

The dividend will be paid on or after April 30, 1999 net of 25 % withholding tax plus an additional surcharge of 5.5 % against submission of dividend coupon No. 17 as appropriate at one of the paying agents listed in issue No. 81, dated April 30, 1999 of the German "Bundesanzeiger" (Federal Gazette).

In the United Kingdom the dividend payment, which is free of charge, will be made in Pounds Sterling with conversion from Deutschmarks at the rate prevailing on the day of submission of the dividend coupon and will take place through the London offices of the following companies:

In accordance with the Double Taxation Agreement of November 26, 1964, as amended on March 23, 1970, between the United Kingdom and the Federal Republic of Germany, the withholding tax plus the mentioned surcharge in respect of shareholders resident in the United Kingdom is reduced to 15 %. To claim this reduction, shareholders must submit an application for reimbursement before December 31, 2003 to the Bundesamt für Finanzen, 53221 Bonn, Germany.

Warburg Dillon Read,  
2 Finsbury Avenue, London  
EC2M 2PP.  
Deutsche Bank AG, London,  
6, Bishopsgate,  
London EC2P 2AT.

The Board of Executive Directors  
BASF Aktiengesellschaft

67056 Ludwigshafen/Rhine,  
Germany  
April 30, 1999

**BASF**

## Notice of Entitlement to Redeem To the Holders of YOUTH SERVICES INTERNATIONAL, INC. 7% Convertible Subordinated Debentures due 2006

CUSIP No. 987816AB1 ISIN No. XS0009473804

NOTICE IS HEREBY GIVEN that a Redemption Event has occurred with respect to the 7% Convertible Subordinated Debentures due 2006 (the "Debentures") of Youth Services International Inc. (the "Company") on March 31, 1999. Palm Merger Corp., a subsidiary of Correctional Services Corporation ("CSC") merged with and into Youth Services International, Inc. ("YSI"), with YSI surviving the merger as a wholly-owned subsidiary of CSC (the "Merger"). The Merger constitutes a Designated Event. Capitalized terms used and not otherwise defined in this letter shall have the respective meanings ascribed to such terms under the Indenture.

**Holder Redemption Date.** In accordance with Section 6(d)(ii) of the Indenture dated as of October 15, 1996 (as amended), between YSI and The Chase Manhattan Bank the holders of the debentures may cause the Company to redeem their debentures on June 15, 1999. The conditions precedent to redemption by the Company at the option of the holders have occurred.

**Holder Redemption Price.** The redemption price of the debentures for holders who elect to present their debentures to the Company for redemption is 100% of the principal amount of the Debentures, together with interest accrued to the Holder Redemption Date.

**Cessation of Interest and Rights of Debentureholders who Elect Redemption.** On the Holder Redemption Date, the Redemption Price of the Debentures presented to the Company for redemption will become due and payable. Interest on the Presented Debentures will cease to accrue on and after the Holder Redemption Date. The Presented Debentures will no longer be deemed outstanding after the Holder Redemption Date and all rights thereto will cease, except the right of holders to receive the redemption price.

**Redemption Procedure.** Holders electing to present their Debentures to the Company for redemption must surrender the Debentures in whole but not in part, together with the Redemption Notice on the debentures duly executed, at any of the locations set forth at the end of this notice on or before the close of business on June 8, 1999. Payment of the amount to be received on redemption will be made by the Company upon presentation and surrender of the Debentures (with coupons attached on any Bearer Debentures) at any of the locations set forth at the end of this notice.

**Revocation of Election to Redeem.** A holder electing to present its Debentures to the Company for redemption may revoke such election by delivering a written notice of such revocation, together with the holder's non-transferable receipt of such security, to any of the locations set forth at the end of this notice on or before June 15, 1999.

**Holders whose Debentures are not redeemed.** Holders of Debentures who elect not to have their Debentures redeemed by the Company will have the right to convert their Debentures into shares of Common stock of the Company on or before the close of business on February 1, 2006.

**Agreements with Selected Holders.** This notice is not being given to each Debenture holder who has entered into an agreement with YSI under which YSI has agreed with such holder that, among other things, at such holder's option, YSI will repurchase that holder's Debenture on March 31, 2000 (the "Repurchase Date"). In order to exercise this option, each such holder must surrender the Debenture(s) to be redeemed, together with a redemption notice, at YSI, 2 Park Center Court, Suite 200, Owings Mills, Maryland 21117, or such other place as designated by YSI in writing, before the close of business on the fifth business day prior to the Repurchase Date.

For Registered Securities

The Chase Manhattan Bank  
1201 Main Street, 18th Floor, Dallas, Texas 75202, United States

For Bearer Securities

The Chase Manhattan Bank  
Crosby Court, 38 Bishopsgate  
London EC2N 4AJ, England  
Attn: Sean Duggan  
Capital Markets Fiduciary Services

Chase Manhattan Bank Luxembourg S.A.  
5 rue Pléiades  
L-2236 Luxembourg

The Chase Manhattan Bank  
for and on behalf of  
Youth Services International Inc.

**CHASE**

April 30, 1999



# Airtours bid sets up holidays price war

By Scheherazade Daneshmand, Leisure Industries Correspondent

A holidays price war seemed set to erupt yesterday in the wake of the opening of a bid battle for First Choice, one of Britain's biggest tour operators.

Airtours, the second largest, launched an £800m (£1.29bn) hostile bid for First Choice, third biggest, which if successful would break up First Choice's £1.5bn merger deal with Switzerland's Kuoni and knock Thomson Travel Group from its

number one slot.

Thomson immediately pledged to start selling its main summer 2000 holidays next week with "substantially increased capacity and very attractive prices" and stressed it had no intention of surrendering its market leader position.

A price war is widely regarded as potentially damaging to the industry. Reflecting this, Thomson's shares, which floated last year at 170p, closed 24p lower at 130 1/2p. The company is regarded as more vulnerable to a price war

than Airtours because 90 per cent of its profits comes from the UK compared with 65 per cent for Airtours.

Some institutional shareholders in Thomson privately questioned the logic of the strategy and said they would seek clarification from Paul Brett, Thomson's chief executive and a strong proponent of the market leadership argument.

The Airtours bid would create a company with a market capitalisation of £2.8bn if it succeeds, making it a contender for the FTSE 100.

The company, founded by David Crossland, its chairman, 27 years ago with a £2,000 loan, would increase the number of holidays it sells annually from 10m to 14m, have 1,200 travel agency shops and operations in 17 countries.

The possibility of a counter-bid from Preussag, Europe's largest travel company which has a controlling stake in Thomas Cook, the UK travel group, disappeared after Airtours revealed it had undertaken from Thomas Cook, Preussag and Westdeutsche Lan-

desbank, a large Thomas Cook shareholder, not to make a competing offer.

There was shareholder concern yesterday that the bid would plunge the industry into a damaging holiday price war after First Choice, which had recommended the merger with Kuoni to its shareholders said yesterday they should take no action.

But Airtours, which failed in its 1993 bid for First Choice - then called Owners Abroad - due to lack of shareholder support, said it had secured the support of 44 per cent of First Choice's

ordinary shareholders.

Phillips & Drew, which holds 10 per cent of First Choice's shares said it supported Airtours' bid over a merged Kuoni/First Choice because of the higher price, the scope for substantial cost savings and because Airtours had delivered in the past. "It's a much more compelling offer but it does involve the risk that it may not be cleared by the competition authorities," said Phillips & Drew.

Airtours said its bid would lead to annual cost savings of £35m.

## COMMENT

### Airtours bid

Piqued at Airtours' bid for First Choice, Thomson Travel seems bent on casting the UK tour operating sector back to the dark ages. To protect its longstanding market leadership - which it would lose if Airtours' bid succeeded in wresting First Choice from its planned merger with Switzerland's Kuoni - Thomson is proposing a calamitous price war. If it hoped this would knock back the value of Airtours' all-paper bid, it was right: however, while Airtours' shares fell 6 per cent yesterday, Thomson's plunged more than 15 per cent, leaving them 23 per cent below last year's flotation price. Thomson's management is demonstrably failing to adjust to life in the public eye. Recovering shareholder support looks difficult.

As for Airtours' bid, it appears to be a knock-out. Despite yesterday's fall, it values First Choice shares at 215p, a 44 per cent premium to Kuoni's implied offer. And with over 40 per cent irrevocable or indicative acceptances and Preussag-controlled Thomas Cook ruling itself out, Airtours has virtually closed off the possibility of rational counterbidders. Thomson, however, may not fall into that category.

Competition worries must also be an issue, given the combined group's 35 per cent market share. A lengthy European investigation seems probable. That said, Kuoni's bid, for all its weaknesses, remains on the table if Airtours is blocked.

#### United News & Media

United News & Media has hardly inspired the market in recent years. But yesterday's acquisition of Nasdaq-listed high-technology magazine publisher CMP really sparked. Grabbing the leading business-to-business titles and their promising web sites at a cyclical low-point in the computer advertising market is canny. At 1.9 times CMP's sales, United has paid below the industry average for such deals. The main attraction is CMP's low margins. United's team at Miller Freeman has shown itself able to lift margins to 20 per cent in previous deals.

Creating a tracking stock for CMP's online businesses is sensible, particularly if it attracts ZDNet's stratospheric rating. Having a web currency to sizzle up other online sites is essential, given current valuations and the need to lure ambitious staff with juicy options.

## Vivendi mulls over bidding for One-2-One

By David Owen in Paris

Vivendi, the acquisitive French communications and utilities group, is considering bidding for One-2-One, the UK's fourth biggest mobile phone operator, as an early building block for a European telecoms empire.

Jean-Marie Messier, the French group's chairman, said the company wanted to build a "solid European base with the alliances needed for us to offer a worldwide service to our customers. Within two years, we think there will be very significant opportunities for Vivendi in Europe in the domain of telecoms."

One-2-One, which analysts have valued at up to £11bn, (\$17.7bn) was put up for sale last month by its joint owners Cable and Wireless, the UK telecoms group, and MediaOne, the US cable operator. The decision followed an agreed bid for MediaOne by Comcast, a rival cable group, although this offer was trumped this month by AT&T, the US long distance telecoms operator.

Vivendi, the biggest shareholder in Cegetel, a French telecoms operator in which the UK's BT also has a large stake, joins a long list of

potential bidders for One-2-One. It is thought these could include Deutsche Telekom of Germany, Bell Atlantic of the US and France Telecom. Michel Bon, France Telecom's chairman, yesterday hinted in an interview with Le Monde, the French newspaper, that the company might make a UK acquisition.

Mr Messier said Vivendi, the former Générale des Eaux, which already has extensive UK interests in other fields, would only move for One-2-One if it thought "the financial conditions" were compatible with its targeted rate of return for shareholders.

"It is not sure that the situation of One-2-One - fourth licence, low market share, weak revenues, high acquisition cost - is the ideal situation. Nevertheless, that is one of the situations we are looking at. We would really only do it if the price conditions were reasonable."

Launched in 1993, One-2-One was the first UK mobile phone operator to offer mass market services.

Vivendi last month bought a 51 per cent stake in Monaco Telecom, the national telecoms operator of the tiny but wealthy Mediterranean coast principality.

## Unilever predicts sales growth despite setback

By David Blackwell

Unilever, the Anglo-Dutch consumer products group, is confident that sales growth can be re-established this year after a disappointing first quarter.

The group blamed the difficult economic backgrounds in several markets including Russia, Brazil and Chile, for a fall of 1 per cent in turnover to \$6.5bn (\$10.5bn) in the first three months.

Its ice cream businesses suffered from a reorganisation of distribution in the UK, higher prices for ingredients in North America and inclement weather in Brazil.

The shares were marked down 33 1/2p to 588 1/2p yesterday after the group reported a 4 per cent decline in pre-tax profits to \$668m (\$891m). Excluding exceptional items operating profits were flat at \$845m.

The latest figures compare with a strong first quarter in 1998, when operating profits were 41 per cent higher on an 8 per cent rise in sales.

The group said the latest quarter was one trading day shorter, which was equal to a 1.5 per cent fall in sales.

Sales fell in Europe and North America, and were flat in Latin America. The group said the 4 per cent fall in European sales mainly reflected the troubled economy of Russia, where volumes tumbled 60 per cent. "We have scaled the business back to fit the new circumstances, and refocused on the leading brands and categories," the company said, adding that the fall-out from Russia had affected other east European countries.

In Africa and the Middle East sales were 3 per cent ahead on better margins, a good performance in South Africa and continued recovery in Nigeria. Robust sales of household and personal care products helped to drive turnover from the Asia and Pacific regions up 5 per cent.

Interest receivable was \$2m higher at \$35m. Earnings slipped to 5.68p (5.7p).

By David Blackwell and John Williams

Shares in Allied Domecq tumbled yesterday after the spirits and retailing group reported a 9 per cent fall in interim profits and flat sales.

Allied, which warned in January that profits would be hit by a downturn in its pubs business, said trading had picked up in the last few weeks. But it added that pub profits were unlikely to return to last year's levels until the final quarter.

Underlying growth in the spirits side was strong in Europe and North America. But the performance elsewhere was hit by the turmoil in emerging markets and changes to the tax regime in Mexico, an important market for the group.

Allied shares fell 31p to close at 478 1/2p. Tony Hales, chief executive, will face renewed questions from investors over the group's strategy. "While it is terribly difficult to separate industry conditions from manage-

ment performance, there is a growing feeling that something else might have made a better fist of things," said one institution.

Sir Christopher Hogg, chairman, said he had been surprised at the strength of market reaction to the January statement. But there was underlying growth as Allied concentrated its resources behind key brands in each of the important markets.

He said demerger remained an option, and that Allied continued to talk to

all possible partners in the drinks industry. "We will do anything that enhances shareholder value," he added.

Pre-tax profit fell from £320m to £292m (\$470m) in the six months to February 28, on turnover down 3 per cent at £1.55bn. Earnings per share were up 20 per cent at 25.4p (21.1p) but down 4 per cent after allowing for exceptional items, which included £189m profit on the sale of Cantrell & Cochrane, the Irish drinks company.

Mr Hales said the group had reacted to the downturn in its pubs business with measures to boost turnover. These included keeping price rises below competitors and offering better value meals. Direct mail was being used to target new and lapsed customers.

Allied was commended by one analyst for resisting the temptation to throw money into the under-performing pubs. But another said Mr Hales had failed to reassure him that the group had done

enough to arrest the decline.

In the spirits division, volumes of the four core brands rose, with Sauza tequila up 14 per cent and Kahlua liqueur ahead by 11 per cent. But Ballantine's scotch whisky was flat and Beefeater gin down 2 per cent.

But the division's operating profit fell 4.6 per cent because of currency movements and a £10m fall in profit from bulk sales after stocks had been reduced.



## Pre-tax profit similar to last year

Three months unaudited results to 31 March

	1999	1998
OPERATING PROFIT	£341m	£378m
PRE-TAX PROFIT	£309m	£311m
EARNINGS PER SHARE	9.18p	11.08p

- The Group's pre-tax profit, at £309 million, was similar to last year.
- Operating profit at £341 million was down 10 per cent. This reflected economic and currency problems in a number of markets, although there are now early signs of recovery in the Brazilian and Asian economies.
- Total cigarette volumes were 6 per cent lower. Sales were adversely affected in the quarter by economic uncertainty in many of the priority markets and US domestic volumes suffered from price increases following the US tobacco settlement.
- The reduction in earnings per share principally arises from an accounting distortion in the Group's effective tax rate for 1999, in connection with US tobacco settlements.
- "The proposed merger with Rothmans, which is on track for completion in the second quarter, will obviously have a major impact on the Group in the balance of the year. Excluding Rothmans, however, the Board expects that operating profit before exceptional items should be broadly similar to 1998, as the results improve during the second half of the year."

Martin Broughton, Chairman

The full quarterly report is being posted to shareholders and copies are available from the Company Secretary, British American Tobacco p.l.c., Globe House, 4 Temple Place, London WC2R 2PG.



Vivendi mulls  
over bidding  
for One-2-Net

AAA@aigint'l

Unilever predicts  
sales growth  
despite setback

aig international inc.  
foreign exchange commodities interest rates

AIG International Inc. is rated AAA by FITCH IBCA Ltd. based upon guarantees provided by American International Group, Inc.

ASIA  
Hong Kong  
AIG International Inc.  
Hong Kong Branch  
Reuters: AIGK  
Telephone: 852 2509 5500  
Contact: Nadav Lehavy  
E-mail: nlehavy@aigtc.com

EUROPE  
London  
AIG International Limited  
AIG International (UK) Limited  
Reuters: AIGC  
Telephone: 44 171 709 2820  
Contact: Frank Horsford  
E-mail: fhorsford@aigtc.com

THE AMERICAS  
Greenwich  
AIG International Inc.  
Reuters: AIGE  
Telephone: 1 203 861 3535  
Contact: Jones Littman  
E-mail: jlittman@aigtc.com

**AIG**

INTERNATIONAL

Member Company of  
American International  
Group, Inc.







gross lifts BA

EURO MARKETS

# Defence industry prepares for new battles

The Kosovo campaign may lead to a reassessment of the needs of European defence policy, writes Bertrand Benoit

War is bad news for financial markets. But Nato's military intervention in Kosovo has thrown one class of stocks into the searchlight. Over the past few days, defence issues such as Thomson-CSF and Lagardere of France and British Aerospace have risen 10-20 per cent. The conflict may mean little in terms of new orders but it could have a lasting effect on the industry.

Despite record profitability, Europe's defence sector is emerging from a decade of bruising budget cuts and declining export markets. At first sight, the air campaign over Kosovo is far from a boon. The only beneficiary so far has been Raytheon of the US, which manufactures the Tomahawk cruise missile. Yet by highlighting the shortcomings of European armed forces, the war may lead to a major reassessment of their needs.

"Europe has long been preparing for the third world war where the quantity of

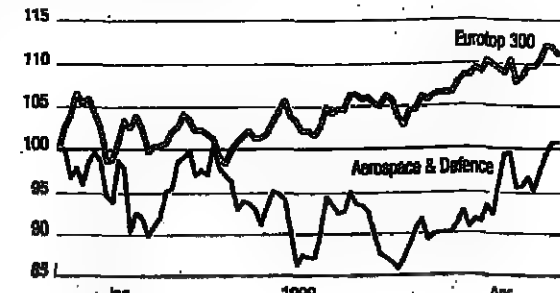
weapons mattered more than quality," says Nick Cunningham, defence analyst at Salomon Smith Barney. "But the difficulties Nato faces in Kosovo underline the need for reach, flexibility and precision."

The debilitating impact of bad weather has been an embarrassment for the alliance. Its pilots have had trouble seeing targets and, despite the use of unmanned drones and the secure radio communication systems on some US aircraft, evaluating damage and gathering intelligence has proved difficult.

"Kosovo is changing the military's ideas about what sort of equipment it needs and that could prompt a massive replacement cycle," says Mr Cunningham. Meanwhile, the ambition of Britain and France to establish a European Defence Identity - a political structure enabling European Union countries to use Nato assets without US support - will put pressure on governments to upgrade forces.

## Aerospace & Defence sector

FTSE Europe 300 index (rebased)



Source: DataStream/FT

Smith Barney's latest survey of the industry, the decline in military spending following the cold war, may be bottoming out. The latest generation of European fighter aircraft has gone into development. Production of Dassault Aviation's Rafale, and Eurofighter, a rival produced by a consortium of four countries, will boost turnover over the next six years.

In addition to the Tiger and NH90 helicopters, Europe is getting its own cruise missile, the Apache from Matra BAe Aerodynamics, a joint venture between Lagardere and BAe.

For the defence team at Chartered, "the industry is moving into a period of equipment production that has not been experienced for the last 20 years". Digby Waller, defence economist at the International Institute for Strategic Studies in London, agrees. "The US has announced a rise in defence spending. Somewhere along

the line, European governments will follow."

Defence companies stand to benefit hugely from even a moderate pick-up in orders thanks to the transformation undergone in the 1990s. "Revamped management teams have created leaner and fitter structures, with additional turnover falling straight to the bottom line," said a London-based analyst.

Companies have also adjusted to new procurement methods, moving to the so-called fixed-price system, where the cost of delays and budget overruns is incurred by the maker in exchange for higher margins.

One cloud on the horizon is the decline in commercial aircraft orders, which constitute roughly half the turnover of Europe's biggest aerospace companies. Yet, according to most analysts, the slowdown is unlikely to be as severe for Airbus, the European consortium, as for the market in general.

"Airbus is in pretty good shape with its biggest backlog in history and the mar-

ket share it gained from Boeing during the up-cycle," says Sash Tusa, defence analyst at Goldman Sachs.

"The acceleration of consolidation will also give support to share prices this year. BAe's acquisition of Marconi, GEC's defence unit, in January, has made a pan-European link-up less likely because of the reluctance of DaimlerChrysler Aerospace to join BAe as a junior partner. But the pressure has not abated and Dasa is widely thought to be eyeing Casa, Spain's state-controlled defence company."

"Companies will link up at the products level, which is less damaging to national pride," says one analyst. News of the proposed merger of the missile assets of BAe, Lagardere, and Finmeccanica of Italy, announced by John Weston, BAe's chief executive, this week is part of such a dynamic.

As the industry leaves its lean times behind, defence stocks may turn out to be a better investment than they have been for a decade.

## CURRENCIES, MONEY & BONDS

### EURO-ZONE BONDS

Apr 29	Yield	Price	Change	Yield	Price	Change
■ GOVERNMENTS						
UK	6.00	102.85	0.02	6.00	102.85	0.02
Denmark	6.00	104.67	0.01	6.00	104.67	0.01
Sweden	6.00	106.74	0.01	6.00	106.74	0.01
Italy	6.00	110.50	0.01	6.00	110.50	0.01
■ SUPPLEMENTALS						
AD&S	10.00	108.54	0.01	10.00	108.54	0.01
ABX	10.00	108.54	0.01	10.00	108.54	0.01
12/99	12.00	116.75	0.01	12.00	116.75	0.01
World Bank	04/05	116.75	0.01	04/05	116.75	0.01
■ UTILITIES						
EDF	10.00	102.40	0.01	10.00	102.40	0.01
TEPCO	02/03	104.34	0.01	02/03	104.34	0.01
Quebec Hydro	03/08	108.25	0.01	03/08	108.25	0.01
Norway Hydro	19/99	101.59	0.01	19/99	101.59	0.01
■ FINANCIALS						
Bank France	02/10	108.57	0.01	02/10	108.57	0.01
OS	09/07	112.19	0.01	09/07	112.19	0.01
Credit Local	04/05	108.54	0.01	04/05	108.54	0.01
Alloy Metal	01/09	102.75	0.01	01/09	102.75	0.01
■ INDUSTRIALS						
Unilever	10/01	104.77	0.01	10/01	104.77	0.01
McCormick	03/09	108.51	0.01	03/09	108.51	0.01
Philly Metals	09/08	105.40	0.01	09/08	105.40	0.01
BAT Int'l	07/09	104.54	0.01	07/09	104.54	0.01
■ FARMHOUSE						
Rainbow Food	12/01	106.10	0.01	12/01	106.10	0.01
Suncorp Ag	01/04	106.98	0.01	01/04	106.98	0.01
First American	07/05	113.84	0.01	07/05	113.84	0.01
Dynex	01/09	104.32	0.01	01/09	104.32	0.01
■ OTHER YIELDS						
General	04/07	115.00	0.01	04/07	115.00	0.01
Cat Telecom	11/07	107.39	0.01	11/07	107.39	0.01
Investment Metal	05/07	112.00	0.01	05/07	112.00	0.01
Value Controls	07/05	107.14	0.01	07/05	107.14	0.01



## Index-linked gilts sale fails to impress

[illegible][illegible]







## COMMODITIES &amp; AGRICULTURE

## Wheat prices fall in India after bumper harvest

By Kamal Bose in Calcutta

Bumper production in Indian foodgrains in the season just ended, and in wheat in particular, has led to a 30 per cent fall in wheat prices in the past 2½ months.

Some farm experts say the Indian wheat crop for the 1998-99 season, which ended on March 31, was as large as 73m tonnes.

The Food Corporation of India, a federal government procurement agency, said wheat procurement, which has already risen above 7m tonnes, would be a record 13.7m tonnes this time compared with 12.6m tonnes in 1997-98.

India's foodgrain production in 1998-99 will have

risen 1.40 per cent to 200.9m tonnes helped by great strides made by wheat and pulses.

The Centre for Monitoring Indian Economy, a think-tank, initially estimated foodgrain production of 194m tonnes in June 1998, which was subsequently revised to 194.8m tonnes in February 1999. The government's first estimate was 185.8m tonnes.

The CMIE said it was surprised by the growth in production as the year had seen an erratically progressing and an equally erratically withdrawing monsoon.

The country also had to put up with floods in many states and rain during the harvest of summer crops.

## Consumption of coarse grains expected to recover

World consumption of coarse grains is expected to show signs of recovering to pre-Asian crisis levels next year, writes Paul Solman. The International Grains Council forecasts coarse grain consumption at 884m tonnes in 1999-2000, against an estimated 876m tonnes in the 1998-99 season.

"After a period of quite rapid growth, world coarse grains consumption has

levelled off since the mid-1990s, mainly because of a steep decline in feed use in Russia and economic recession in parts of the far east," the IGC said. It attributed the higher consumption to increased economic activity in Asia, and stronger demand in Europe and the US.

Trade in coarse grains is also forecast to rise, mainly because of an expected

upturn in maize imports, the IGC said. Current figures suggest trade will be 84m against an estimated 82m in 1998-99. "However, the potential for a larger increase remains, especially if there are significant crop shortfalls in major importers," it said.

World wheat consumption is expected at 586m tonnes in 1998-99 against 590m tonnes last season.

26.7m to 27.1m hectares and farmers could complete more than 70 per cent of sowing in time - taking advantage of the moisture left in the soil

turned favourable for wheat, which is a winter crop. According to the agriculture ministry, since the area under wheat was up from

## Australian iron ore exports

1993-99, financial years

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

1993-94 1994-95 1995-96 1996-97 1997-98 1998-99

by the post-monsoon rain - the crop was a record 70.63m tonnes compared with 65.9m tonnes in 1997-98.

The country also harvested a record 15.19m tonnes of pulses against 13.07m tonnes in 1997-98. India's highest production of pulses to date was 14.26m tonnes in 1990-91.

Production of gram, which is the most important of all the pulse crops grown in India, is estimated to have reached nearly 6.4m tonnes in 1998-99, compared with 6.07m tonnes in the previous year.

Winter pulse cultivation also benefited from sufficient moisture in the soil.

India's total agricultural production, in which food-

grains comprise 62.9 per cent, increased by 6.8 per cent in 1998-99, following a fall of 5.4 per cent in the previous year.

According to the Central Organisation for Oil Industry & Trade, production of nine important oil seeds will be up 2.01m tonnes to 22.65m tonnes.

India harvested 46.55m tonnes of fruits and vegetables in 1998-99 against 41.17m tonnes in the previous year.

Production of sugar cane advanced from 276.25m tonnes to 282.68m tonnes.

The tea crop from 811m kg to 870m kg, rubber output from 584,000 tonnes to 605,000 tonnes, and tobacco production from 650,000 tonnes to 670,000 tonnes.

## Crude oil back above \$16 a barrel

## MARKETS REPORT

By Paul Solman

Crude oil pushed back above \$16 a barrel in London yesterday, in the wake of suggestions that output cuts agreed last month were proving effective.

A survey by Reuters released on Wednesday said crude production by the Organisation of Petroleum Exporting Countries had been cut by 1.35m barrels a day in April.

The bellwether Brent blend contract for June delivery rose to almost \$16.50 a barrel at one stage on the International Petroleum Exchange, before dropping back to \$16.38 in late trading. Wednesday's close was \$15.80.

Base metals continued to ride the recent wave of optimism in the market, with nickel rising to its highest for almost a year on the London Metal Exchange.

At the close of trading, the three-month contract was up \$70 at \$5,510 a tonne, while copper was up \$17.50 at \$1,578.50 a tonne, its highest since December.

Cocoa futures closed firmer for the second consecutive day on the London International Financial Futures and Options Exchange, although analysts said there was no fundamental news to support the rise in prices.

The most actively traded July contract finished at \$704 a tonne, \$4 higher than Wednesday's level. However, it still has a long way to go to recoup the losses of the past few months.

White sugar was also stronger than of late, with the August contract gaining \$4.30, or almost 3 per cent, to \$167.50 a tonne in late trading.

Robusta coffee was less positive, with July slipping \$8 to close at \$1,430 a tonne.

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES

FINANCIAL TIMES



## OFFSHORE AND OVERSEAS

**BERMUDA**  
(PSA RECOGNISED)

[illegible]

**BERMUDA  
(REGULATED) (---)**

[illegible]

**CAYMAN ISLANDS  
(REGULATED)\*\***

[illegible][illegible][illegible][illegible]

**GUERNSEY**  
(FSA RECOGNISED)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045	2046	2047	2048	2049	2050	2051	2052	2053	2054	2055	2056	2057	2058	2059	2060	2061	2062	2063	2064	2065	2066	2067	2068	2069	2070	2071	2072	2073	2074	2075	2076	2077	2078	2079	2080	2081	2082	2083	2084	2085	2086	2087	2088	2089	2090	2091	2092	2093	2094	2095	2096	2097	2098	2099	2100	2101	2102	2103	2104	2105	2106	2107	2108	2109	2110	2111	2112	2113	2114	2115	2116	2117	2118	2119	2120	2121	2122	2123	2124	2125	2126	2127	2128	2129	2130	2131	2132	2133	2134	2135	2136	2137	2138	2139	2140	2141	2142	2143	2144	2145	2146	2147	2148	2149	2150	2151	2152	2153	2154	2155	2156	2157	2158	2159	2160	2161	2162	2163	2164	2165	2166	2167	2168	2169	2170	2171	2172	2173	2174	2175	2176	2177	2178	2179	2180	2181	2182	2183	2184	2185	2186	2187	2188	2189	2190	2191	2192	2193	2194	2195	2196	2197	2198	2199	2200	2201	2202	2203	2204	2205	2206	2207	2208	2209	2210	2211	2212	2213	2214	2215	2216	2217	2218	2219	2220	2221	2222	2223	2224	2225	2226	2227	2228	2229	2230	2231	2232	2233	2234	2235	2236	2237	2238	2239	2240	2241	2242	2243	2244	2245	2246	2247	2248	2249	2250	2251	2252	2253	2254	2255	2256	2257	2258	2259	2260	2261	2262	2263	2264	2265	2266	2267	2268	2269	2270	2271	2272	2273	2274	2275	2276	2277	2278	2279	2280	2281	2282	2283	2284	2285	2286	2287	2288	2289	2290	2291	2292	2293	2294	2295	2296	2297	2298	2299	2300	2301	2302	2303	2304	2305	2306	2307	2308	2309	2310	2311	2312	2313	2314	2315	2316	2317	2318	2319	2320	2321	2322	2323	2324	2325	2326	2327	2328	2329	2330	2331	2332	2333	2334	2335	2336	2337	2338	2339	2340	2341	2342	2343	2344	2345	2346	2347	2348	2349	2350	2351	2352	2353	2354	2355	2356	2357	2358	2359	2360	2361	2362	2363	2364	2365	2366	2367	2368	2369	2370	2371	2372	2373	2374	2375	2376	2377	2378	2379	2380	2381	2382	2383	2384	2385	2386	2387	2388	2389	2390	2391	2392	2393	2394	2395	2396	2397	2398	2399	2400	2401	2402	2403	2404	2405	2406	2407	2408	2409	2410	2411	2412	2413	2414	2415	2416	2417	2418	2419	2420	2421	2422	2423	2424	2425	2426	2427	2428	2429	2430	2431	2432	2433	2434	2435	2436	2437	2438	2439	2440	2441	2442	2443	2444	2445	2446	2447	2448	2449	2450	2451	2452	2453	2454	2455	2456	2457	2458	2459	2460	2461	2462	2463	2464	2465	2466	2467	2468	2469	2470	2471	2472	2473	2474	2475	2476	2477	2478	2479	2480	2481	2482	2483	2484	2485	2486	2487	2488	2489	2490	2491	2492	2493	2494	2495	2496	2497	2498	2499	2500	2501	2502	2503	2504	2505	2506	2507	2508	2509	2510	2511	2512	2513	2514	2515	2516	2517	2518	2519	2520	2521	2522	2523	2524	2525	2526	2527	2528	2529	2530	2531	2532	2533	2534	2535	2536	2537	2538	2539	2540	2541	2542	2543	2544	2545	2546	2547	2548	2549	2550	2551	2552	2553	2554	2555	2556	2557	2558	2559	2560	2561	2562	2563	2564	2565	2566	2567	2568	2569	2570	2571	2572	2573	2574	2575	2576	2577	2578	2579	2580	2581	2582	2583	2584	2585	2586	2587	2588	2589	2590	2591	2592	2593	2594	2595	2596	2597	2598	2599	2600	2601	2602	2603	2604	2605	2606	2607	2608	2609	2610	2611	2612	2613	2614	2615	2616	2617	2618	2619	2620	2621	2622	2623	2624	2625	2626	2627	2628	2629	2630	2631	2632	2633	2634	2635	2636	2637	2638	2639	2640	2641	2642	2643	2644	2645	2646	2647	2648	2649	2650	2651	2652	2653	2654	2655	2656	2657	2658	2659	2660	2661	2662	2663	2664	2665	2666	2667	2668	2669	2670	2671	2672	2673	2674	2675	2676	2677	2678	2679	2680	2681	2682	2683	2684	2685	2686	2687	2688	2689	2690	2691	2692	2693	2694	2695	2696	2697	2698	2699	2700	2701	2702	2703	2704	2705	2706	2707	2708	2709	2710	2711	2712	2713	2714	2715	2716	2717	2718	2719	2720	2721	2722	2723	2724	2725	2726	2727	2728	2729	2730	2731	2732	2733	2734	2735	2736	2737	2738	2739	2740	2741	2742	2743	2744	2745	2746	2747	2748	2749	2750	2751	2752	2753	2754	2755	2756	2757	2758	2759	2760	2761	2762	2763	2764	2765	2766	2767	2768	2769	2770	2771	2772	2773	2774	2775	2776	2777	2778	2779	2780	2781	2782	2783	2784	2785	2786	2787	2788	2789	2790	2791	2792	2793	2794	2795	2796	2797	2798	2799	2800	2801	2802	2803	2804	2805	2806	2807	2808	2809	2810	2811	2812	2813	2814	2815	2816	2817	2818	2819	2820	2821	2822	2823	2824	2825	2826	2827	2828	2829	2830	2831	2832	2833	2834	2835	2836	2837	2838	2839	2840	2841	2842	2843	2844	2845	2846	2847	2848	2849	2850	2851	2852	2853	2854	2855	2856	2857	2858	2859	2860	2861	2862	2863	2864	2865	2866	2867	2868	2869	2870	2871	2872	2873	2874	2875	2876	2877	2878	2879	2880	2881	2882	2883	2884	2885	2886	2887	2888	2889	2890	2891	2892	2893	2894	2895	2896	2897	2898	2899	2900	2901	2902	2903	2904	2905	2906	2907	2908	2909	2910	2911	2912	2913	2914	2915	2916	2917	2918	2919	2920	2921	2922	2923	2924	2925	2926	2927	2928	2929	2930	2931	2932	2933	2934	2935	2936	2937	2938	2939	2940	2941	2942	2943	2944	2945	2946	2947	2948	2949	2950	2951	2952	2953	2954	2955	2956	2957	2958	2959	2960	2961	2962	2963	2964	2965	2966	2967	2968	2969	2970	2971	2972	2973	2974	2975	2976	2977	2978	2979	2980	2981	2982	2983	2984	2985	2986	2987	2988	2989	2990	2991	2992	2993	2994	2995	2996	2997	2998	2999	3000
--	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------

[illegible][illegible][illegible]

Found & Monitors

[illegible]

Alt	Height	Weight	Age	Sex	Color	Other
100	5'10"	150	25	M	Black	
101	5'10"	150	25	M	Black	
102	5'10"	150	25	M	Black	
103	5'10"	150	25	M	Black	
104	5'10"	150	25	M	Black	
105	5'10"	150	25	M	Black	
106	5'10"	150	25	M	Black	
107	5'10"	150	25	M	Black	
108	5'10"	150	25	M	Black	
109	5'10"	150	25	M	Black	
110	5'10"	150	25	M	Black	
111	5'10"	150	25	M	Black	
112	5'10"	150	25	M	Black	
113	5'10"	150	25	M	Black	
114	5'10"	150	25	M	Black	
115	5'10"	150	25	M	Black	
116	5'10"	150	25	M	Black	
117	5'10"	150	25	M	Black	
118	5'10"	150	25	M	Black	
119	5'10"	150	25	M	Black	
120	5'10"	150	25	M	Black	
121	5'10"	150	25	M	Black	
122	5'10"	150	25	M	Black	
123	5'10"	150	25	M	Black	
124	5'10"	150	25	M	Black	
125	5'10"	150	25	M	Black	
126	5'10"	150	25	M	Black	
127	5'10"	150	25	M	Black	
128	5'10"	150	25	M	Black	
129	5'10"	150	25	M	Black	
130	5'10"	150	25	M	Black	
131	5'10"	150	25	M	Black	
132	5'10"	150	25	M	Black	
133	5'10"	150	25	M	Black	
134	5'10"	150	25	M	Black	
135	5'10"	150	25	M	Black	
136	5'10"	150	25	M	Black	
137	5'10"	150	25	M	Black	
138	5'10"	150	25	M	Black	
139	5'10"	150	25	M	Black	
140	5'10"	150	25	M	Black	
141	5'10"	150	25	M	Black	
142	5'10"	150	25	M	Black	
143	5'10"	150	25	M	Black	
144	5'10"	150	25	M	Black	
145	5'10"	150	25	M	Black	
146	5'10"	150	25	M	Black	
147	5'10"	150	25	M	Black	
148	5'10"	150	25	M	Black	
149	5'10"	150	25	M	Black	
150	5'10"	150	25	M	Black	

**www.swi**

One of the insurance industry's most valuable resources on the Web. who wants to benefit from this knowledge.

[illegible][illegible][illegible][illegible][illegible][illegible]

Alkermes Inc	27.13																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		
--------------	-------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

[illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible][illegible]

**www.swissre.com**

One of the insurance industry's key information resources on the Web. Available to everybody who wants to benefit from Swiss Re's global knowledge.





**FT MANAGED FUNDS SERVICE**

### Offshore Funds and Insurances

Offshore Funds and Insurances

JERSEY (REGULATED)									
ABF Fund Managers (UK) Ltd	01534 800000								
ABF Global Growth Fund									
ABF Global Income Fund									
ABF Global Multi-Asset Fund									
ABF Global Real Estate Fund									
ABF Global Small Cap Fund									
ABF Global Tech Fund									
ABF Global Value Fund									
ABF Global World Fund									
ABF Global World Fund (UK)									
ABF Global World Fund (US)									
ABF Global World Fund (EU)									
ABF Global World Fund (JP)									
ABF Global World Fund (AU)									
ABF Global World Fund (IN)									
ABF Global World Fund (BR)									
ABF Global World Fund (MX)									
ABF Global World Fund (RU)									
ABF Global World Fund (CN)									
ABF Global World Fund (SE)									
ABF Global World Fund (KR)									
ABF Global World Fund (TW)									
ABF Global World Fund (HK)									
ABF Global World Fund (SG)									
ABF Global World Fund (TH)									
ABF Global World Fund (VN)									
ABF Global World Fund (PH)									
ABF Global World Fund (ID)									
ABF Global World Fund (MY)									
ABF Global World Fund (SG)									
ABF Global World Fund (TH)									
ABF Global World Fund (VN)									
ABF Global World Fund (PH)									
ABF Global World Fund (ID)									
ABF Global World Fund (MY)									
ABF Global World Fund (SG)									
ABF Global World Fund (TH)									
ABF Global World Fund (VN)									
ABF Global World Fund (PH)									
ABF Global World Fund (ID)									
ABF Global World Fund (MY)									
ABF Global World Fund (SG)									
ABF Global World Fund (TH)									
ABF Global World Fund (VN)									
ABF Global World Fund (PH)									
ABF Global World Fund (ID)									
ABF Global World Fund (MY)									
ABF Global World Fund (SG)									
ABF Global World Fund (TH)									
ABF Global World Fund (VN)									
ABF Global World Fund (PH)									
ABF Global World Fund (ID)									
ABF Global World Fund (MY)									
ABF Global World Fund (SG)									
ABF Global World Fund (TH)									
ABF Global World Fund (VN)									
ABF Global World Fund (PH)									
ABF Global World Fund (ID)									
ABF Global World Fund (MY)									
ABF Global World Fund (SG)									
ABF Global World Fund (TH)									
ABF Global World Fund (VN)									
ABF Global World Fund (PH)									
ABF Global World Fund (ID)									
ABF Global World Fund (MY)									
ABF Global World Fund (SG)									
ABF Global World Fund (TH)									
ABF Global World Fund (VN)									
ABF Global World Fund (PH)									
ABF Global World Fund (ID)									
ABF Global World Fund (MY)									
ABF Global World Fund (SG)									
ABF Global World Fund (TH)									
ABF Global World Fund (VN)									

هكذا من الامم



**FT MANAGED FUNDS SERVICE**

### Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (44 179) 873 4376 for more details.

[illegible]











# Footsie loses height in switch from growth issues

MARKET REPORT  
By Steve Thompson,  
UK Stock Market Editor

One of the most action-packed trading sessions in the past few weeks saw the London stock market's leaders finally run out of puff and back off from the elevated levels that drove the two main FTSE indices to record highs.

Weakness in the front-line stocks was mainly concentrated in a handful of important sectors: the mortgage and savings banks, food retailers and pharmaceuti-

cals. But it was a drinks company, Allied Domecq, that took the dubious accolade of being the worst individual FTSE 100 constituent.

Allied's latest dismal showing came in the wake of poor interim results and a warning of lower profits from its retail operations and non-European spirits businesses.

After a day of persistent, although never heavy selling, the FTSE 100 finished the day a net 101.2 lower at 6,497.8, just short of a session low of 6,493.6. At its worst yesterday the index was down 105.2.

Wall Street gave every support to London, the Dow Jones Industrial Average nudging ahead overnight and maintaining its advance yesterday, when the New York benchmark topped 10,900.

But the weakness in the FTSE leaders was never evident in the mid and small-cap stocks.

The FTSE 250 index closed a net 3.9 firmer at 5,616.6 and the FTSE SmallCap a comfortable 9.4 ahead at 3,557.7.

Dealers insisted the sell-off in the top 100 companies was not the start of a big retreat, merely a dose of profit-taking after the spectacular advance to new highs.

"Turnover today was as good as you would have expected in the run-up to the long weekend, which includes the May Day holiday. The institutions were

not selling the market today. If anything, the centralised dealing desks were looking to buy the quality stocks. As long as Wall Street looks secure then so will London, and other European markets remain the same," said one institutional salesman.

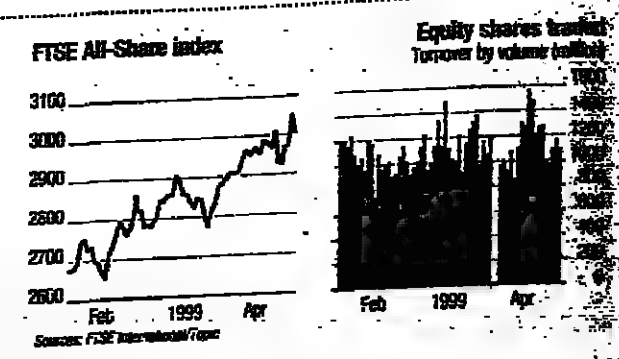
Commenting on the latest shift into cyclical stocks, Richard Kersley, strategist at Credit Suisse First Boston, said there was scepticism about the market's valuation at these levels.

"It does look twitchy at these levels," he said. But he also pointed to the continued appetite for the classic cyclical stocks like Rio Tinto and BP Amoco.

The government's move to introduce much more stringent regulation of mortgages and long-term care insurance, put the skids under the mortgage banks and insurance stocks, while Wal-Mart's decision not to move into UK food retailing knocked the stuffing out of the supermarket stocks.

Drug shares remained firmly out of favour, suffering from pulses of selling pressure from US institutions.

Turnover at 6pm was 1.1bn shares.



Equity shares traded  
Topover by volume (millions)

Index	Value
FTSE 100	6,497.8
FTSE 250	5,616.6
FTSE SmallCap	3,557.7
FTSE All-Share	5,000.0

Best performing sectors

Sector	Change
1 Mining	+5.7
2 Food & Drug Retailers	+4.7
3 Life Insurance	+4.5
4 Steel & Other Metals	+3.5
5 Packaging	+1.7

## FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIVERPOOL) £10 per full index point

Month	Open	Sett	Change	High	Low	Est. vol	Open Int.
Jun	6500.0	6500.0	-107.8	6550.0	6510.0	25671	193904
Jul	6500.0	6500.0	-107.8	6550.0	6510.0	25671	193904
Aug	6500.0	6500.0	-107.8	6550.0	6510.0	25671	193904

## LONDON RECENT ISSUES: EQUITIES

Issue	Price	Yield	Dividend	Change
BP	142.5	5.8%	8.00	+0.5
BT	110.0	4.5%	5.00	+0.5
BT Group	110.0	4.5%	5.00	+0.5
BT Group	110.0	4.5%	5.00	+0.5

## RIGHTS OFFERS

Company	Price	Yield	Dividend	Change
BP	142.5	5.8%	8.00	+0.5
BT	110.0	4.5%	5.00	+0.5
BT Group	110.0	4.5%	5.00	+0.5

## FTSE GOLD MINES INDEX

Index	Value
FTSE Gold Mines Index	1,200.0

## UK Series

Series	Value
UK GDP	1,200.0

## TRADING VOLUME

Major Stocks	Volume
BP	1,200,000
BT	1,200,000

## Holiday groups feel heat

COMPANIES REPORT  
By Joel Kibazo, Martin Brice and Peter John

Fears of a protracted price war in the holiday market cast a shadow over what many had seen as a knock-out bid by tour operator Air Tours for rival First Choice.

First Choice, which rejected the bid after the market closed, had agreed a merger with Switzerland's Kuoni before Air Tours tabled its offer yesterday valuing First Choice at 230p a share or \$562.1m (\$1.37bn).

If successful, the bidder said it expected to make cost savings of about \$35m from the merger. The deal would make it the biggest operator in the UK.

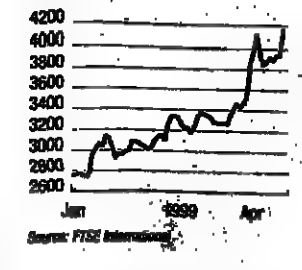
## FT 30 INDEX

Index	Value
FT 30 Index	6,497.8

## STOCK MARKET TRADING DATA

Category	Value
Shares traded	1,200,000,000
Value traded	\$1,200,000,000

## Best and worst performing FTSE sectors

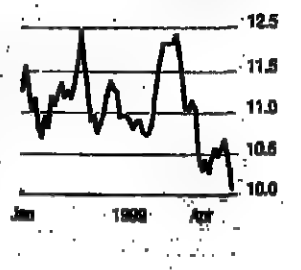


prompt consolidation away from the bigger groups, with Graham Group likely to look for a partner.

Graham was up 6p at 164p, suggesting a possible upside of 25 per cent. Graham has a market share of about 4 per cent, well behind Wolsley with 18 per cent.

Wolsley saw brick roads of 8.9m as it gained 1p to 88p, while Meyer enjoyed one of the better FTSE 250 performances, rising 18p to 449p.

## Pharmaceuticals (000)



company announced it had agreed to buy CMP, a US technology media company, for \$30 a share or a \$90m.

It said the combination of CMP's publishing and internet assets with the trade show and publishing businesses of Miller Freeman

"will transform Miller Freeman into one of the leading market-focused business media groups serving the US and global high-tech sector."

## loans and long-term care insurance within the scope of the PSA as soon as practically possible.

Halifax eased 3p to 86p and Abbey National fell 5p to £13.56 even though HSBC said Abbey was worth £17.5m a share in a "buy" note.

Amvescap, the fund manager dipping 10p to 67p despite announcing it had lifted operating margins and profits during the 1999 first quarter and was on schedule for further growth this year.

Standard Chartered improved 19p to £11.35 helped by a positive reaction from Goldman Sachs to the company's two recent Asian acquisitions.

## Oil boosted further

Oil majors rose after renewed market speculation was added to a sector already boosted by strong Brent crude oil prices.

## The boulevard chatter

might have been older than Toulouse-Lautrec, but it helped BP Amoco lift 9p to £11.69p, while Shell Transport, which announced a \$715m disposal in the Gulf of Mexico, rose 7p to 461p.

**BREITLING**  
1884

THE PRINCIPLES OF AVIATION  
THE ESSENCE OF BREITLING

In the demanding world of aeronautics, every single component must be officially approved and certified. We apply the same principle to the manufacturing of our wrist instruments.

Our movements meet all the precision and reliability criteria required to obtain chronometer certification. One simply does not become an aviation supplier by chance.

CHRONOMAT. Selfwinding chronograph. BREITLING's leader model, created in cooperation with the Italian Freccia Tricolori elite flight team.

BREITLING SA  
TEL: +41 32 / 654 54 54 - FAX: +41 32 / 654 54 00  
P.O. BOX 1152 - 2540 GRENCHEN - SWITZERLAND

INSTRUMENTS FOR PROFESSIONALS

www.breitling.com

FTSE Actuaries Share Indices

Index	Value
FTSE Actuaries Index	1,200.0







FINANCIAL TIMES FRIDAY APRIL 30 1999

25-27, 28/29, 29/30	1.38	4.9	2.4	767	81%	38%	+1%	-1%
28/29, 29/30	1.38	4.9	2.4	767	81%	38%	+1%	-1%
29/30, 30/31	1.38	4.9	2.4	767	81%	38%	+1%	-1%
30/31, 31/32	1.38	4.9	2.4	767	81%	38%	+1%	-1%
31/32, 32/33	1.38	4.9	2.4	767	81%	38%	+1%	-1%
32/33, 33/34	1.38	4.9	2.4	767	81%	38%	+1%	-1%
33/34, 34/35	1.38	4.9	2.4	767	81%	38%	+1%	-1%
34/35, 35/36	1.38	4.9	2.4	767	81%	38%	+1%	-1%
35/36, 36/37	1.38	4.9	2.4	767	81%	38%	+1%	-1%
36/37, 37/38	1.38	4.9	2.4	767	81%	38%	+1%	-1%
37/38, 38/39	1.38	4.9	2.4	767	81%	38%	+1%	-1%
38/39, 39/40	1.38	4.9	2.4	767	81%	38%	+1%	-1%
39/40, 40/41	1.38	4.9	2.4	767	81%	38%	+1%	-1%
40/41, 41/42	1.38	4.9	2.4	767	81%	38%	+1%	-1%
41/42, 42/43	1.38	4.9	2.4	767	81%	38%	+1%	-1%
42/43, 43/44	1.38	4.9	2.4	767	81%	38%	+1%	-1%
43/44, 44/45	1.38	4.9	2.4	767	81%	38%	+1%	-1%
44/45, 45/46	1.38	4.9	2.4	767	81%	38%	+1%	-1%
45/46, 46/47	1.38	4.9	2.4	767	81%	38%	+1%	-1%
46/47, 47/48	1.38	4.9	2.4	767	81%	38%	+1%	-1%
47/48, 48/49	1.38	4.9	2.4	767	81%	38%	+1%	-1%
48/49, 49/50	1.38	4.9	2.4	767	81%	38%	+1%	-1%
49/50, 50/51	1.38	4.9	2.4	767	81%	38%	+1%	-1%
50/51, 51/52	1.38	4.9	2.4	767	81%	38%	+1%	-1%
51/52, 52/53	1.38	4.9	2.4	767	81%	38%	+1%	-1%
52/53, 53/54	1.38	4.9	2.4	767	81%	38%	+1%	-1%
53/54, 54/55	1.38	4.9	2.4	767	81%	38%	+1%	-1%
54/55, 55/56	1.38	4.9	2.4	767	81%	38%	+1%	-1%
55/56, 56/57	1.38	4.9	2.4	767	81%	38%	+1%	-1%
56/57, 57/58	1.38	4.9	2.4	767	81%	38%	+1%	-1%
57/58, 58/59	1.38	4.9	2.4	767	81%	38%	+1%	-1%
58/59, 59/60	1.38	4.9	2.4	767	81%	38%	+1%	-1%
59/60, 60/61	1.38	4.9	2.4	767	81%	38%	+1%	-1%
60/61, 61/62	1.38	4.9	2.4	767	81%	38%	+1%	-1%
61/62, 62/63	1.38	4.9	2.4	767	81%	38%	+1%	-1%
62/63, 63/64	1.38	4.9	2.4	767	81%	38%	+1%	-1%
63/64, 64/65	1.38	4.9	2.4	767	81%	38%	+1%	-1%
64/65, 65/66	1.38	4.9	2.4	767	81%	38%	+1%	-1%
65/66, 66/67	1.38	4.9	2.4	767	81%	38%	+1%	-1%
66/67, 67/68	1.38	4.9	2.4	767	81%	38%	+1%	-1%
67/68, 68/69	1.38	4.9	2.4	767	81%	38%	+1%	-1%
68/69, 69/70	1.38	4.9	2.4	767	81%	38%	+1%	-1%
69/70, 70/71	1.38	4.9	2.4	767	81%	38%	+1%	-1%
70/71, 71/72	1.38	4.9	2.4	767	81%	38%	+1%	-1%
71/72, 72/73	1.38	4.9	2.4	767	81%	38%	+1%	-1%

[illegible]

كلمة من القرآن



## هکذا من الاصل

[illegible]

**4 days close April**

[illegible][illegible]

**Business Education**

**Monday May 17**

For further information please contact:

Laura Remigi-Luppi in London

Tel: +44 171 873 3308 Fax: +44 171 873 3064

Email: [laura.remigi-luppi@FT.com](mailto:laura.remigi-luppi@FT.com)

**FINANCIAL TIMES**

No FT. no comment.



# STOCK MARKETS

## Hopes of upturn give investors comfort

### WORLD OVERVIEW

European markets closed in the red but off their lows, taking some comfort from a strong start on Wall Street and increasing signs of an economic upturn at home, writes *Bertrand Benoit*.

Frankfurt closed 0.6 per cent down, dragged lower by heavy losses in Lufthansa, while Paris emerged from an early dip to finish only

slightly lower. Oslo, Madrid and Copenhagen were the only European bourses to keep their heads above water.

New York continued to send mixed signals, with the Dow Jones Industrial Average edging higher thanks to benign employment data, while the technology-heavy Nasdaq came under renewed pressure. Internet stocks suffered an early sell-off, sparked by disappointing

results and a bleak outlook from on-line bookseller Amazon.com.

The recent pattern of rising basic industrial stocks and declining growth issues continued in Europe as economic data from France seemed to confirm the continent's economy.

The national statistics agency released its April industrial survey yesterday,

showing a drop in production but an increase in optimism for the near future among industrialists.

This followed a bottoming of the Ifo survey in Germany and a pick-up in the closely monitored Belgian National Bank manufacturing survey, published on Friday.

According to J.P. Morgan, construction, steel and engineering stocks should be the main cyclical sectors to

benefit from the brightening outlook for growth. The European team at BT Alex Brown was more cautious, saying the market was hearing mixed signals.

"The bottom of the cycle sees conflicting trends emerge - low interest rates tend to boost equities while weakening earnings tend to point to equity markets falling," wrote the team in a note published yesterday.

Asia was subdued with Tokyo closed for the day. Seoul was particularly weak, responding to investors' worries that the government might sell its stakes in two of the country's main banks in a bid to cool down a two-month rally.

Despite a sharp drop in January, the Seoul composite index has risen more than 157 per cent since its trough in September.

### EMERGING MARKET FOCUS

## Manila springs back into life

For Philippine stockbrokers, the last month has been a long-awaited throwback to the good times before the Asian economic crisis.

The sluggish Manila dealing rooms of last year have come back to life as the Philippines has caught on to an upsurge of liquidity around Asian markets.

It is still a far cry from heavy pre-crisis boom times and concerns remain about whether the economic and earnings outlook justifies the recent rally, but suddenly there are murmurings about a "bull market" again around the broking houses.

While the sharpest recovery came in low volumes last year, the PSE 30 index has risen 30 per cent since the start of April to 2,433, and the market has now rallied more than 120 per cent from a low of 1,082 on September 11 1997.

Volumes have also picked up in this often-illiquid market from about \$15m in the extended trading lull last year to \$50m-\$80m amid rising foreign inflows as many funds scramble to build an exposure to Asian markets.

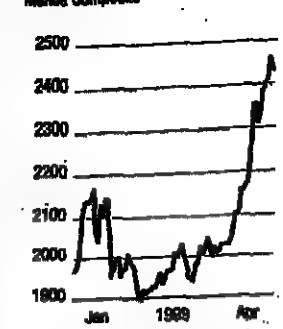
Driving the renewed interest have been the reduced perceptions of risk across Asian markets, a realisation of the greater-than-expected resilience of the economy, expectations of a recovery in earnings growth this year and, importantly, dramatic falls in interest rates.

The benchmark 91-day treasury bill rate has fallen to about 10.22 per cent from 20 per cent at the peak of the crisis early last year.

The yield on the 10-year dollar-denominated Philippine government bond has dropped from about 15 per cent last year to 8.4 per cent, reducing the premium over equivalent US treasuries from more than 650 basis points to around 300.

Matthew Sutherland, head of research at Paribas Asia Equity, says if the 91-day treasury bill rate drops to 9

Philippines  
Monthly Composite



Source: Investment Bank

per cent and the 10-year bond yield falls to around 7.5 per cent as expected, a PSE 30 index level of 2,875 would be "perfectly viable".

Scott Gibson, director of research at ABN-Amro, estimates the market is trading on a prospective 1999 price-earnings ratio of about 21 times. He says this is not that cheap compared with other Asian markets, but the Philippines, due to its lower liquidity levels, traditionally has traded at higher multiples to its peers.

In addition, the aggregate valuations for the market are skewed by steep PE multiples for a few index heavyweights that tend to be valued as asset plays at higher levels.

Mr Gibson says it would be not much of a stretch for the market to approach traditional PE levels of around 25 times, particularly given this was the low point of the earnings cycle when stocks tended to be valued at higher levels.

Doubts about the sustainability of the market's rally remain, however. The Philippines may suffer partly due to its small size and its relative resilience during the Asian crisis. With other countries hit harder by the crisis, the sharper recovery plays for investors may be found elsewhere.

Tony Tassell

## Techs hit by more selling as Dow rises

### AMERICAS

Technology stocks sold off for a third day on Wall Street at midday, while cyclical and financial shares pushed the blue-chip sector higher, writes *John Labate* in New York.

The market was again divided. The Dow Jones Industrial Average climbed 24.91 from Wednesday's record close to 10,570.35, but the broader Standard & Poor's 500 index fell 5.79 to 1,345.12.

Investors sold off internet and other computer-related stocks on earnings news, driving the Nasdaq composite down 42.48 or 1.7 per cent to 2,507.94.

Banking stocks traded higher as bond prices rallied after the release of a better-than-expected employment cost index for the first quarter. Bond investors were relieved that labour costs were well contained, sending the 30-year long bond up \$ by midday to 96 1/8, to yield 5.87 per cent.

Among financial stocks in the Dow, Citigroup rose \$2 to \$76 1/2 while American Express gained \$4 1/4 to \$57 1/2. Alcoa, a strong performer in recent weeks, gained another \$1 1/4 to \$65 1/2. Retailer Wal-Mart lost \$1 1/2 to \$47 1/2 after its rating by Prudential Securities was cut to "hold".

Internet stocks continued to sell off as a group. Amazon.com lost \$24 or 12.4 per cent to \$189 1/2 a day after it reported stronger earnings growth than expected for the first quarter. Other high-tech sectors were lower as well, with semiconductor produc-

ers and equipment makers off sharply. Texas Instruments lost \$4 1/4 to \$106 1/2 while Teradyne tumbled more than 11 per cent or \$6 1/2 to \$47 1/2.

Computer makers also weakened. Dell Computer was off \$ 1/4 to \$40 1/2. In telecoms, MCI/Worldcom slid more than 5 per cent or \$4 1/4 to \$83 1/2 after beating expectations in its latest quarterly report.

Other stocks were down in the sector with AT&T off \$ 1/2 to \$38 1/2. But MediaOne, the target of a recent takeover attempt by AT&T, rose \$ 1/2 to \$79 1/2.

Downward momentum among small-company shares sent the Russell 2000 index down 2.51 to 430.32.

TORONTO moved lower in early trading with weak telecoms and gold sectors setting the direction. At noon, the 300 composite index was off 3.07 to 7,068.00.

Telecoms continued to meet with profit-taking and shares in the sector fell heavily for a second day running. BCE lost C\$2 to C\$68.96 and Northern Telecom came off C\$2.40 to C\$102.35.

Gold was also on the defensive. Barrick shed 16 cents to C\$29.56 and Placer Dome came off 40 cents to C\$80.00.

Banks were mixed, but by the close of morning trading they had moved only modestly. Royal Bank of Canada added 5 cents to C\$72.95 and Toronto-Dominion eased 10 cents to C\$73.60.

Alcan Aluminium put on C\$1.30 to C\$46.25. Inco gained 70 cents to C\$87.10. Renaissance Energy rose 95 cents to C\$22.25.

### EUROPE

European markets were mostly weaker despite a late recovery that helped some of them recoup their earlier losses while allowing Madrid, Oslo and Copenhagen to finish slightly in the black.

Basic industry and energy stocks finished mostly higher, helped by the appetite of investors for cyclical plays. Oil and gas issues rose 2 per cent, while the smaller forestry and paper and mining sub-indices added 2.7 and 8 per cent. Information technology stocks were 2 per cent weaker in their US peers.

The FTSE Euro100 100 index, which covers leading companies in the euro-zone, closed 2.88 or 0.3 per cent

lower at 1,077.34. The FTSE Eurotop 100, covering countries inside and outside monetary union fell 20.29 to 3,042.06, while the broader FTSE Eurotop 300 settled 10.78 lower to 1,318.26.

Earnings disappointments continued to hamper Frankfurt with aerospace trading statements from the chemicals sector and airline Lufthansa further souring the investor mood.

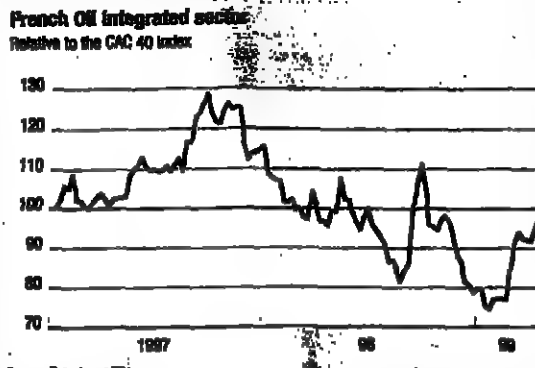
Unexciting first-quarter figures sent BASF and Hoechst steadily lower in early trading. The former recovered to close 44 cents ahead at €42.40, but Hoechst finished off €1.44 at €49.50.

Bayer shed 48 cents at €29.27. Lufthansa, which warned of a fall in 1999 profits, fell 73 cents to €21.82.

Coming hard on top of Wednesday's disappointing trading statement from motor giant Volkswagen, the quarterly reports sparked a broad sell-off, although there was a fairly determined attempt at a rally towards the close of trading.

The Xetra Dax index ended down 28.96 at 5,233.06 after a session low of 5,235.20. VW, which ran into a swathe of broker downgrades for the second day running, tumbled €1.50 to €55.90 for a two-day decline of 3.3 per cent. The shares stood at €90 in January.

PARIS ended negative despite piling much of its



Source: Investment Bank

losses in late trading. The CAC-40 shed 3.17 or 0.1 per cent to 4,571.83, helped from its lows by an early rally on Wall Street and figures showing an overall improvement in business confidence.

The latest INSEE industrial survey showed a fall in output this month, but suggested manufacturers were more optimistic about prospects.

Among the main winners, oil stocks cheered the latest rally in oil prices, with Elf Aquitaine rising 68 or 4.4 per cent to €145 and Total 68 or 5 per cent to €195.50.

CCF was back on radar screen after weeks of inaction in the shadow of the BNP-Paribas Générale-Paris merger battle.

CCF shares shot up €4.80 or 8.3 per cent to €68.80 after shareholders ING of the Netherlands and KBC of Belgium said they had upped their stakes.

Meanwhile, a mixed batch of company results provided pretexts for investors to cash profits. Air Liquide retreated €9.90 or 4.5 per cent to €146 and Michelin lost a sharp €2.20 to €43.30 on disappointing first-quarter figures.

Alcatel delivered in-line first-quarter sales but came under pressure following a retreat in US peers. The telecom equipment company gave up €2.30 to €116.50.

AMSTERDAM ended 2.01 lower at 573.52 on the AEX index and would have been even more depleted but for an upbeat session for heavyweight Royal Dutch, which responded to strong international oil prices with a rise of 2.8 per cent.

Unilever shed 90 cents to €54.00 after a downbeat first-quarter statement from the

foods-to-detergents giant, and telecoms leader KPN came off €1.60 to €29.50 on regulatory concerns. Steel group Hoogovens lost €1.05 at €37.95.

Royal Dutch was a beacon of bullish sentiment among the prevailing gloom. The stock added €1.50 at €58.10.

ZURICH gave ground as profit-taking put pressure on the market and the SMI index finished 56.3 lower at 7,304.6.

Novartis stayed on a downward path, losing SF290 to SF212.25 while Roche certificates ran into profit-taking, falling SF229 to SF217.45.

Food and beverage group Nestlé picked itself up from a fall below the psychologically important SF2,800 level to close SF2,815 higher at SF2,815.

Insurers, steady in early trade, ran into losses with Swiss Re down SF22 to SF21,336 while Zurich Allied,

## São Paulo turns up in wake of rate cut

SAO PAULO was slightly higher following a cut in the central bank's Selic reference rate late on Wednesday. The market had seen profit-taking in early trading but rose into the black following a steady start on Wall Street. The Bovespa index was 7 or 0.1 per cent higher at 11,135 at midsession.

MEXICO CITY was 69.05 or 1.3 per cent higher at 5,227.34 on the IPC index at midsession as investors cheered some positive first-quarter corporate results and an increasingly upbeat economic outlook.

BUENOS AIRES was up 1.3 per cent at midsession, with the Merval index adding 6.38 to 512.57, given a boost by foreign buying.

Oil group YPF rose 0.80 pesos to 34.90 pesos after reporting first-quarter earnings that came in above expectations.

CARACAS fell 2.4 per cent in early trade after the government announced a new 0.5 per cent financial transactions tax would be levied on stock trading.

The IBC index was 134.34 lower by midsession at \$417.17.

## Jo'burg rallies in late spurt

### SOUTH AFRICA

Shares in Johannesburg rose for the third consecutive session, adding 44.3 at 6,597.0 on the all share index following a sharp rally late in the day. Industrials improved 7.4 at

7,482.3, but the main boost to the day came from golds, which rose 22.8 to 333.3 on robust buying as the March quarterly reporting season started.

JCI Gold advanced 73 cents to R8.

## Bank talk cools Seoul fever

### ASIA PACIFIC

Sellers returned to the market en masse in SEOUL yesterday after reports, later denied, that the government would sell stakes in two of the country's main banks.

It was thought the government wanted to cool down the market rally that has sent the composite index up 48 per cent over the last two months.

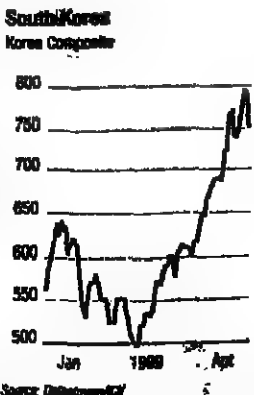
The index shed 37.42 or 4.7 per cent to 752.51 as investors ignored figures showing a 12.3 per cent quarterly rise in industrial output. Traders said that low stocks suggested manufacturers had not recovered confidence in the economy.

The sell-off hit mostly blue chips, banks and securities firms. Among the most affected was SK Telecom, down Won152,000 to Won120,000. Pohang Iron and

Tokyo was closed yesterday for a public holiday.

Steel shed Won6,200 to Won58,000, while Hyundai Securities fell Won5,000 to Won43,500.

BANGKOK posted a 2 per cent gain, ahead of most



Source: Investment Bank

other markets in the region, with the SET index 8.51 higher to 431.73.

It was boosted by a sharp rally in Siam Commercial Bank, B23.25 or 12.4 per cent higher to B29.50 after it successfully placed B23.5bn worth of new shares mainly to foreign buyers, with the finance ministry agreeing to buy another B32.5bn.

Thai Military Bank rose B2 to B15 after saying it would issue B12bn in debt and equity instruments.

KUALA LUMPUR swung higher after two days of profit-taking, boosted by renewed foreign buying and

another good session for the rupiah, which stayed firm against the dollar.

Medco Energi surged Rp425 to Rp1,700 and Telkom gained Rp100 to Rp3,600. Tobacco group Gudang Garam rose Rp25 to Rp14,400. The composite index ended 9.55 or 2 per cent higher at 490.95.

TAIPEI moved lower in moderate turnover with disappointing first-quarter results from United Micro-electronics sparking heavy selling in the important electronics sector.

Brokers said foreign investors, keen to lock in profits, were net sellers to the tune of T\$946m.

United Micro fell by the daily 7 per cent limit or T\$4 at T\$53.50 after first-quarter pre-tax earnings came in 50 per cent below the same quarter a year ago - a steeper decline than analysts had predicted.

The weighted index closed off 206.99 or 2.3 per cent at 7,289.62.

BOMBAY was higher on foreign fund buying and end-of-account short-covering by local speculators.

The BSE-30 index climbed 52.88 to 3,325.89 as an

absence of more negative news on the political front reassured the market.

Among leading gainers, Digital Equipment India put on Rs28 to Rs372.25 and Zee Telefilms climbed Rs83.50 to Rs1,282.25.

HONG KONG overcame early weakness as bargain hunters turned out to end a brief correction, and the Hang Seng index finished up 45.31 at 18,178.70, having hit an early session low of 12,881.80.

HSBC gained HK\$3 to close at HK\$388 while Hongkong Telecom reversed course to finish 30 cents higher at HK\$20.70.

SYDNEY lost ground as broad market weakness took the shine off a strong performance among resources.

BHP jumped 42 cents to A\$16.56 to help lift the resources sector 2.4 per cent. In the end, though, a negative tone prevailed.

Banks were notably dull and there was a steep fall at media giant News Corp, which lost 55 cents or 4.1 per cent at A\$12.94.

The All Ordinaries index finished an active session with a decline of 17.8 at 3,104.9.

## WITH THANKS!

To all participants  
in the  
**Barclays Capital  
Global  
Inflation-Linked Bond  
Conference**

Paris  
23 April 1999

**BARCLAYS  
CAPITAL**

### A SHARPER FOCUS

CHICAGO • FRANKFURT • HONG KONG • JOHANNESBURG • LONDON  
MADRID • MILAN • MUMBAI • NEW YORK • PARIS • SINGAPORE • SYDNEY • TOKYO

And in 10 other cities across the world [www.barclays.com](http://www.barclays.com)  
Issued and approved by Barclays Bank PLC, regulated by FSA and member of the London Stock Exchange. Barclays Capital is the investment banking division of Barclays Bank PLC which is authorised by the FSA and is a wholly owned subsidiary of Barclays Bank PLC. © 1999 Barclays Capital

Handwritten note: JPM 100 150



# ASIAN FINANCIAL MARKETS

FRIDAY APRIL 30 1999

## Shadow of the crisis casts gloom over banks

Although the financial market turmoil seems to have passed and there are signs that economic recovery may be in the offing, the immediate future is still uncertain, writes **Peter Montagnon**

"Let's face it," sighs Gabriel Singon, central bank governor of the Philippines. "The banks have become timid." After nearly two years living in the shadow of the worst economic crisis in living memory, it is not surprising that many banks in Asia have lost the confidence to lend. The result, from Thailand to Japan has been a credit crunch that has intensified the recession and left the region in the grip of serious deflation.

But while officials such as Mr Singon worry about how to get credit flowing again, some banks are quietly exploiting opportunities to develop new markets. HSBC has signed a memorandum of understanding to buy Seoul Bank in South Korea, and US investment banks say they have begun to make good profits in Japan as the power of that country's large securities houses wanes.

Two questions preoccupy the region's financial sector as the second anniversary of Thailand's devaluation approaches. The first is that of whether economic recovery may at last be in the offing, symbolised by narrowing international bond spreads and a sharp rise in the region's stock markets since last autumn. The other, for those institutions lucky or canny enough to survive the turmoil, is how to position oneself for that recovery and the massive task of corporate and financial restructuring that still lies ahead.

For banks in the crisis countries, the rescue process generally has some way to run, says Roy Ramos, Asian banking analyst at Goldman Sachs in Hong Kong. Thailand has a government support programme but the

banks are reluctant to use it. Malaysia is putting in government money, but there are doubts about the follow-up reforms in the corporate sector. In Korea, considerable support has already been given. But with gearing levels still uncomfortably high in the country's largest conglomerates, further losses may be inevitable. More money will be needed, says Mr Ramos. Korea has a framework and is making progress, but "we will have to have a second or a third capitalisation".

More broadly the regional economic background remains uncertain. The financial market turmoil seems to have passed. Interest rates have fallen sharply from their crisis peaks, but there are still only modest signs of a revival of demand. Economists say these also mostly reflect an end to de-stocking and the large, but unsustainable fiscal stimulus which is now flowing through in many countries. The immediate prospects for Japan and China, the region's two largest economies, are modest at best. The Japanese economy has begun to benefit from the massive dose of fiscal pump-priming injected by the government, but many economists are still expecting it to shrink this year.

With bank restructuring not yet complete and corporate restructuring only now getting under way, there are fears that the unemployment rate, already 4.8 per cent, will continue to increase. That will be bad for confidence, while Japan cannot afford to maintain the current dramatic fiscal stimulus into next year.

In China, the region's other locomotive, growth last year was officially 7.8

per cent, a shade below the 8 per cent target. This year it is expected to be around 7 per cent, but most economists believe official figures overstate the true output position.

Many China watchers were struck by the grim prognosis of prime minister Zhu Rongji at the National Party Congress last month when he forecast a very difficult year ahead for China. Uncertainty over China's economic outlook continues to cast a damper around the region. The economy is still in the grip of deflation, and many main industries, such as steel, are facing severe price competition from imports. This adds to the pressure on the government to devalue the renminbi.

Since the collapse of Guangdong International Trust and Investment Company last autumn, there has also been a credit squeeze on the non-bank financial sector which has aggravated a broader withdrawal of international bank credit from China. According to the Bank for International Settlements, international bank lending to China fell \$8.3bn in the third quarter of last year.

For banks, continuing regional uncertainty means a careful choice of strategy is needed. One bright sign is that profits have been maintained in some centres, notes Mr Ramos. HSBC is still making a 15.5 per cent return on equity - that of its Hang Seng Bank subsidiary in Hong Kong is 14 per cent. OCBC in Singapore is making 8 per cent, which is not bad given the high level of capital there. Bank of the Philippine Islands made a 17 per cent return in 1998. Thanks to consolidation at the national level and the

withdrawal of Japanese banks from the loan market, good institutions can still make money in Asia. "Banking is one of the few sectors in Asia that has real earnings power. Margins have been expanding," says Mr Ramos.

Yet, some commercial banks now believe the future lies in greater emphasis on retail banking. Not only has demand for credit fallen, says David Eldon, Hong Kong head of HSBC, but the crisis has so far failed to produce a much-needed improvement in corporate openness and transparency, and that is a deterrent to commercial lending.

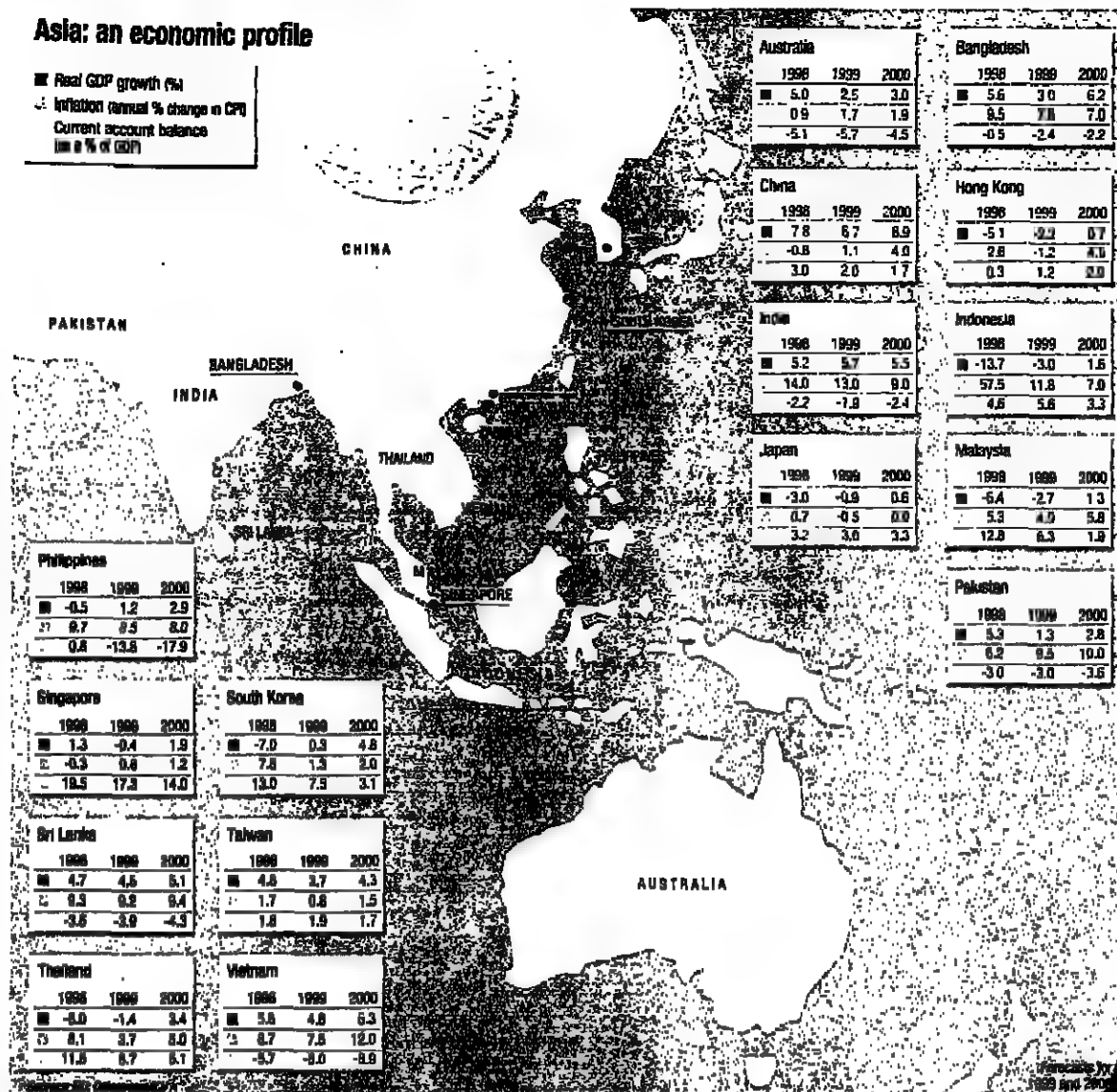
In the post-crisis world a small number of international banks is expected to emerge focusing heavily on upmarket retail business in the region. To HSBC, must be added the name of Citibank in this category, and possibly DBS of Singapore, which has already bought into Thai Danu bank in Thailand. These banks will face competition from the leading local retail operators in individual countries.

For investment banks, the crisis has created a number of opportunities, not least in mergers and acquisitions. According to a study by Robert Fleming, cross-border merger business in the emerging markets of Asia fell back to \$8bn in the second half of last year from \$11bn in the first half. Still, some bankers argue that more may be in the offing as a new wave of corporate restructuring begins, especially in Japan, where the link between motor groups Renault and Nissan may be the way of the future.

The sharp rise in equity markets also holds out the hope of more stock market-

### Asia: an economic profile

Real GDP growth (%)  
Inflation annual % change in CPI  
Current account balance (m % of GDP)





MERGERS AND ACQUISITIONS by Rahul Jacob in Hong Kong

# 'Year of the Deal' proves disappointing

Many observers are writing 1998 off to experience although plenty of deals were completed, especially in Korea and Thailand

After the financial earthquake in Asia in 1997, 1998 was touted as the Year of the Deal. Multinationals were expected to grab the bargains amid the rubble, struggling local companies were supposed to seize the lifelines on offer and everyone, including the investment bankers, would live happily ever after.

It did not turn out that way. Plenty of deals were done, especially from the third quarter of 1998, but multinationals' uncertainty over Asia's long-term recovery prospects and the inflated price expectations of local companies stymied the process.

Many observers are writing last year off to experience. "The year 1998 turned out to be a steep learning curve for vendors and foreign investors alike in Asia," observes Manning Doherty, the author of a Credit Lyonnais Securities report on mergers and acquisition activity in Asia in the past year.

Another difficult lesson learned is that completing such deals simply takes longer in Asia. Many local companies have had little or no experience with large cross-border deals.

In Asia's go-go years, most of its large companies did much more buying than selling; they were not accustomed to negotiations concerning giving up control of their companies. "In Asia, this is new territory for the sellers. They often don't think about control issues till they are in the middle of the transaction," says Harry Van Dyke, head of Asian mergers and acquisitions for Morgan Stanley Dean Witter.

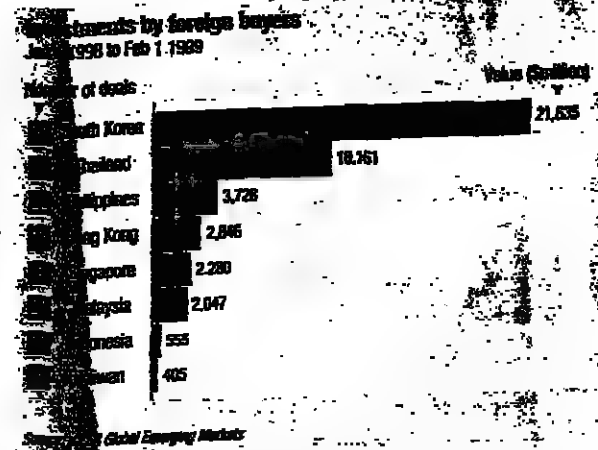
Owners of many Asian companies also had more breathing space than everyone assumed early last year. Payments on their foreign debt shot up as currencies devalued and interest rates sky-rocketed at home, but creditors were kept at bay because of cumbersome bankruptcy procedures. Bankruptcy laws that can be speedily enforced are still the exception rather than the rule in Asia despite new legislation in countries such as Thailand.

Despite the spectacular corporate denouement of the financial crisis, life goes on much as before for many industrialists in the region. "A lot of the heads of family-owned companies are independently wealthy. Their business may be in the toilet, but their lifestyles haven't changed," says Rajiv Lal, a managing director in Hong Kong with the private equity firm Warburg Pincus.

The complicated financial structures at many deeply indebted Asian companies also slowed the pace of deals. Creditors' approvals often required another round of negotiation when they demanded a quicker payback or higher rates of interest before agreeing to sign on the dotted line. Managers for multinationals in the region, in turn, were sometimes hindered by unrealistic targets set by executives of their parent companies in the US or Europe. Some multinational investors surveyed by Credit Lyonnais reported that firms were looking for internal rates of return of 30 per cent.

Still, plenty of deals were completed, especially in Korea and Thailand. The pace picked up towards the end of the year. Credit Lyonnais estimates that the value of investments by foreign buyers totalled US\$12bn in Asia (excluding Japan and the Indian subcontinent). Early buyers included international cement companies such as Cemex, Lafarge and Holderbank which moved in quickly in south-east Asia. Another sector that saw many transactions was telecommunications where British Telecom and Singapore Telecommunications led the way.

Relatively few of the buyers were bargain-hunters come lately to Asia. British Telecom, for instance, had been looking at opportunities in Korea for a few years before it concluded a deal to buy 23.5 per cent of LG Telecom from the large Korean chaebol LG for \$238m. "We had committed to Korea in 1994-1995 so we had already been there more than three years by 1997. In Korea, we bought into a company with 2.3m customers for \$238m. When you compare that with recent bids in the US, it is a very good deal," says Mark Smith, BT's managing director in north-east Asia. In April, BT bought 20 per cent of Smartone, a cellular service provider in Hong Kong.



Signs that the crisis was bottoming out late last year helped strengthen the resolve of many multinationals and the deal flow picked up, a trend that has continued into 1999. In February this year, HSBC Holdings signed a memorandum of understanding with the Korean government to buy an initial 70 per cent of Seoul Bank for US\$700m. HSBC is expected to eventually acquire 100 per cent of the bank. "If I am going to take 100 per cent of the risk, I would rather take 100 per cent of the equity," says David Edson, chief executive of Hongkong Bank, the Asian arm of HSBC. HSBC also has the right to transfer non-performing assets to a separate company for a year after the deal's closing.

The spectacular rebound of Asian markets this year may mean that many local companies will walk away from the table just as the deal flow is picking up. "One of the reasons there have been disappointing levels of closure is the perception that the worst has passed. 1999 could reinforce that," says Jack Wadsworth, who heads Morgan Stanley Dean Witter in Asia. The year 1999 could still be the Year of the Deal, but do not bet the bank on it.

## PROFILE TADAO CHINO

### New 'home doctor' for Asia's woes

Tadao Chino was in at the birth of the Asian Development Bank. As a still relatively junior official at the UN Economic Commission for Asia he wrote a paper in 1964 that described the creation of a regional bank for Asia as "necessary and feasible".

Now, more than a generation later he finds himself in charge of a mature institution. In the meantime, the ADB's new president spent a long career with the Japanese finance ministry, where he rose to be vice-minister of finance for international affairs, before retiring in 1993 to become, among other things, chairman of the board of advisers at Nomura Research Institute.

For its part, the bank has grown to be a large institution with authorised capital of \$47bn and total cumulative lending of \$77bn. The Asian Development Bank no longer just finances large projects. It is concerned with sectoral development policies, with social safety nets and with helping mobilise private

sector finance to build the region's infrastructure. But in the wake of the Asian economic crisis, it also needs to rethink its role. The bank has been criticised for not foreseeing the crisis as it unfolded and for failing to seize the initiative in responding.

Yet, in backing up the international rescue packages for countries in trouble, the bank lent large sums of money - \$4bn to Indonesia, \$1.8bn to South Korea and \$1.2bn to Thailand - that stretched its balance sheet, raising questions about how long it could manage without a further infusion of capital. It has also sought to become more directly involved in the process of surveillance, so as to ensure better early warning when crises loom in future.

Mitsuo Sato, the outgoing president, used to argue that the role of the ADB was like that of the "home doctor". It was not equipped to deal with systemic crises but, because of its special regional knowledge, it could

PRIVATISATION by Louise Lucas

## Cautious go-ahead for programmes

Asian governments and their advisers will have to tread carefully as they unroll their privatisation plans

Asian citizens may not always like it but their governments are pressing ahead with privatisation programmes, despite protesters from Korea to the Philippines taking to the streets to decry foreign ownership of state assets.

However, while truculent citizens are unlikely to stall the ambitious plans, there are more powerful antagonists in the wings. These include wary and demanding investors, volatile markets and potential external shocks.

The tally so far suggests governments and their advisers will have to tread carefully as they unroll their plans. Getting it right can mean raising substantial sums of money (often needed to repay IMF loans or rebuild crisis-torn economies). Getting it wrong can spoil investors' appetites.

In the former category, Korea last month raked in US\$750m by selling a further 5 per cent stake in Keppo, the electric utility. The Keppo deal, say joint global co-ordinators Salomon Smith Barney and ING Barings, was the biggest Korean equity offering, and the book was more than twice oversubscribed.

For its part, the bank has grown to be a large institution with authorised capital of \$47bn and total cumulative lending of \$77bn. The Asian Development Bank no longer just finances large projects. It is concerned with sectoral development policies, with social safety nets and with helping mobilise private

sector finance to build the region's infrastructure. But in the wake of the Asian economic crisis, it also needs to rethink its role. The bank has been criticised for not foreseeing the crisis as it unfolded and for failing to seize the initiative in responding.

Yet, in backing up the international rescue packages for countries in trouble, the bank lent large sums of money - \$4bn to Indonesia, \$1.8bn to South Korea and \$1.2bn to Thailand - that stretched its balance sheet, raising questions about how long it could manage without a further infusion of capital. It has also sought to become more directly involved in the process of surveillance, so as to ensure better early warning when crises loom in future.

Mitsuo Sato, the outgoing president, used to argue that the role of the ADB was like that of the "home doctor". It was not equipped to deal with systemic crises but, because of its special regional knowledge, it could

deal sympathetically and effectively with specific problems and issues affecting the development of its member countries. Mr Chino says he has three priorities at the outset. The first is to help Asian countries overcome the financial crisis and get them back on the path of economic growth.

The second, is to promote the evolution of the bank into a "broad-based development institution", encompassing social as well as economic development. This requires efforts to develop capacity-building, policy reform, regional and sub-regional co-operation, striking the right balance between lending and non-lending operations of the bank like policy advice.

"I place very much emphasis on the analytical capability of our bank," he says. "We should give policy advice as well as support to good governance and capacity-building. Also it must be a catalyst for private capital resources."

The third priority is to develop short, medium and long-term strategies for combating poverty. One third of Asia's 3bn people still live in poverty, he notes. The bank is preparing a poverty reduction strategy that will be completed later this year.

In the short run, however, the focus is likely to be on negotiations to replenish the Asian Development Fund, the bank's soft loan window that makes concessional lending available to the poorest countries. Mr Chino says replenishment of this fund is more urgent than a general capital increase and formal discussions will have to start later in the year.

Deliberation on the need for a general capital increase has started, and the outcome should give some indication on timing. But first the bank has to maximise its financial efficiency to make the best use of the capital of which it already disposes.

EQUITY MARKETS by Louise Lucas

## Investors starting to sense a recovery

Stock markets are rising, foreigners are taking over banks and governments are confirming their commitment to reforms

Asia's equity capital markets have burst back into life as the region's restructuring takes off. From privatisations in Korea to acquisitions in Thailand, the equity capital markets have been revitalised.

The latest deal to bolster confidence came from South Korea. Shinhan Bank last month raised US\$400m through an issue of global depositary shares. Funds raised covered bad debts, enabling the bank to recapitalise in one go.

Investors bought the paper, which traded up in the after market. The GDSs were priced at US\$19.785, a 2.5 per cent premium to the five-day average and a 5.8 per cent discount to the last trade on April 9.

Demand suggests that investors are starting to sense recovery in the countries that fell so sharply from grace in 1997. Stock markets are rising, foreigners are taking over banks and governments are giving credibility to their commitment to reform - not least by travelling on roadshows

and listening to investors' concerns. Bankers are hoping the success of Shinhan will bode well for the US\$1.75bn recapitalisation of Thailand's Siam Commercial Bank. "If SCB is successful, that will open the market for a broad range of issues, including more bank recapitalisations, but if not it will be difficult," says Scott Ferguson, managing director, head of equity capital markets, at Salomon Smith Barney, which is leading the SCB deal.

Keeping the market open is important. The pipeline of recapitalisations, privatisations and other cash-raising deals is a hefty one as the crisis-torn region endeavours to pay back debts and return to growth. However, and successful deals notwithstanding, confidence is fragile. Investors were badly burned barely two years ago, and they have grown more demanding in the interim.

And it is not a resounding success story. The way is littered with aborted or scaled down deals that were mispriced, mistimed, or simply too big for a still wary investor base to swallow.

In the latter category was the Development Bank of Singapore's exchangeable bond issue. Plans to raise an ambitious US\$1.3bn were scuppered by slim demand. Ultimately, the deal size was almost halved to US\$750m and the Singapore dollar tranche cut back to just \$330m from a proposed \$810m to \$520m.

Placements launched on the Hong Kong stock market have mostly told a similar story. New World Development, a bluechip property developer, sought to raise an ambitious US\$300m at the end of last year.

Bankers say only a fraction of that went to committed investors - certainly, there was heavy offloading of the stock, with the share price plunging in the following days. Despite a big rally since then on Hong Kong's benchmark Hang Seng Index, the share price is still below the HK\$20.05 issue price.

Open the door to ASEAN Industry!

**ASID**

Looking for a Cost Effective Source of Parts and Components?

Look no further.

The ASEAN Supply Industry Database (ASID) is a comprehensive database of suppliers and manufacturers in the ASEAN region. It provides a wealth of information on products, services, and companies, making it an essential tool for businesses looking to source parts and components from the ASEAN region.

For more information, visit our website at <http://www.asid.org>

Other deals have stalled further down the track, highlighting the depth of debt problems still facing many Asian companies and the more stringent demands of investors.

Negotiations over the sale of a majority stake in Korea First Bank to a US consortium led by Newbridge Capital, a US investment firm, have yet to be completed.

There's a problem if investors are increasing their Asia allocations. If you provide them with so many issues that all of their allocation demand is satisfied by new issues, what after demand is there to drive the market up? he asks.

Other bankers believe Asian governments are wiser this time round, and will seek to stagger their offerings. Besides, says one, the removal of the bulk of foreign ownership restrictions on the Korean market means that investors have been able to increase their allocations sharply - at a time when the hunt is on for value away from the US market.

But Asia cannot count on an easy ride back to investors' wallets.

land issues to trade above its issue price. The stock offers foreign investors the only means of tapping the operational business of telecoms networks in China.

Investors across Asia are also looking for government commitment as well as good sectors. Kirsty MacTaggart, vice-president, syndicate manager at Salomon Smith Barney says that at privatisation roadshows the majority of questions are directed at government representatives rather than at company executives.

BOI

Board of Investment

Ministry of Commerce and Industry

Thailand

Second, better non-performance recovery - there have been many cases of non-performance recovery in the past. And there are many cases of non-performance recovery in the past. And there are many cases of non-performance recovery in the past.

Second, better non-performance recovery - there have been many cases of non-performance recovery in the past. And there are many cases of non-performance recovery in the past. And there are many cases of non-performance recovery in the past.

Second, better non-performance recovery - there have been many cases of non-performance recovery in the past. And there are many cases of non-performance recovery in the past. And there are many cases of non-performance recovery in the past.

Second, better non-performance recovery - there have been many cases of non-performance recovery in the past. And there are many cases of non-performance recovery in the past. And there are many cases of non-performance recovery in the past.



# RUSSIA

FRIDAY APRIL 30 1999

Annual country report

## Quest for a way out of the shadows

Mr Yeltsin's greatest gift to his compatriots could be to let them choose their future by themselves, writes **John Thornhill**

When Yevgeny Primakov turned his aircraft around midway across the Atlantic last month and headed back to Moscow, the Russian prime minister signalled his country's outrage at Nato's imminent assault on Yugoslavia.

Abandoning talks with the US administration and the International Monetary Fund in Washington, Mr Primakov declared Russia would never trade its principles for cash.

Mr Primakov's symbolic action was not only a reminder of Russia's belief in itself as a "great power". It may also be seen as a decisive turning point in his nation's history, the moment when Russia chose to reject the simple remedies offered by the west and turned inward to seek its own salvation.

The approach of parliamentary elections in December and presidential elections in the summer of 2000 is already forcing the Russian people to ask some painful questions about themselves.

What kind of a society does Russia want to build? What role should it play in the modern world? Where should it head in the next millennium?

The half-formed answers to these questions suggest Russia cannot simply copy

other people's models. It must now build one for itself.

There is no disguising the disillusion, anger and despair that millions of Russians feel about the course their country has pursued since the collapse of the Soviet Union in 1991. Many hoped the dissolution of the Communist regime would liberate the Russian people and unleash a more productive economic system.

Precious gains have undoubtedly been made. Freedom of conscience, democratic elections and consumer choice are now such familiar concepts that they are already taken for granted. Yet the recent upsurge of extreme nationalist rhetoric and the murder last November of Galina Starovoitova, one of Russia's most outspoken human rights campaigners, have cast dark shadows over the country's democratic future.

The devastating financial crash in August has also destroyed any lingering illusions that Russia could experience a swift and painless transition to a vibrant market economy, as the west had so eagerly pre-ordained.

Millions of Russians are now struggling to exist on incomes below the official minimum subsistence level of \$34 a month. Many more have lost their most precious

FT file

Constitution



Constitution

**Official name:** The Russian Federation  
**Legal system:** Federal state with republican form of government.  
**National legislature:** The constitution created a two-chamber legislature: the lower house, the State Duma, with 450 deputies elected on a territorial basis; and the upper house, the Federation Council, with 178 deputies, two from each of Russia's 89 republics.  
**Executive system:** Universal direct suffrage over the age of 18. Half of the State Duma members are elected from party lists, and half to a simple majority contest.  
**The Federation Council is composed of:** heads of regional executive and legislative bodies.

Source: International Institute for Democracy and Electoral Assistance (IIDE)

**National elections:** December 17 1995 (parliamentary) and June 16 and July 3 1996 (presidential); next elections due in December 1999 (parliamentary) and June 2000 (presidential).  
**Head of state:** The president, elected for a four-year term; currently Boris Yeltsin.  
**National government:** The government is appointed by the president, currently Yevgeny Primakov.  
**Main political parties:** The most important parties are: Communist Party of the Russian Federation (CPRF); Our Home is Russia (ODPR); Liberal Democratic Party (LDP); Fatherland Party of Russia (FPR); Russian Democratic Choice (RDC); Women of Russia; Congress of Russian Communities (CRC).

Economic summary

	1997	1998 (est)	1999 (proj)
Total GDP (billion rubles)	448	328	N.A.
GDP deflator (annual % change)	16.8	11.3	80.0
Industrial production (annual % change)	1.9	-5.2	N.A.
Unemployment rate (% of workforce)	10.8	12.4	14.0
Money supply, M2 (annual % change)	25.4	21.0	32.5
Green reserves (bil. gold rub)	17.8	12.2	N.A.
Current account balance (bil. rub)	-0.8	-1.4	14.9
Main trading partners (share of total trade in 1997)			
Exports			
EU	32.0%	25.0%	
Germany	7.3%	6.0%	
Ukraine	8.3%	5.0%	
Belarus	5.3%	6.0%	
Poland	2.9%	1.0%	
Imports			
EU	32.0%	25.0%	
Germany	7.3%	6.0%	
Ukraine	8.3%	5.0%	
Belarus	5.3%	6.0%	
Poland	2.9%	1.0%	

sustenance of all, hope.

"For decades we paid for the national catastrophes of 1917 and now we are paying again for a way out of it, and it is also catastrophic," wrote Alexander Solzhenitsyn in his latest polemic, *Russia in Collapse*.

"We have not only

destroyed the Communist system but we have also eradicated the remains of our human foundations," he said, pointing to the mass impoverishment of the Russian people and the rapacity and moral corruption of the post-Soviet nomenklatura.

Even Russia's elite, which

has benefited so conspicuously from the unequal division of spoils, has grown alarmed by the country's economic degradation and political fragmentation. President Boris Yeltsin, the erratic helmsman of post-Soviet Russia, concedes he has helped to create a "freakish

economic model stuck halfway between the plan and the market.

The Council on Foreign and Defence Policy, which includes many of Russia's leading politicians, warns that the federal state is in danger of complete collapse as the "magic glue" holding

the country together begin to dissolve. Moscow desperately needs to restore its political legitimacy through elections if it is to avoid a fearsome popular backlash.

"To wait until the elections in 2000 is extremely dangerous," the council concluded in a recent report. "The degradation of the management of the country and the economy could become irreversible or demand still more authoritarian, extreme measures."

"Historical experience shows that a prolonged deterioration in the economic position of the middle class creates fertile soil, not for a liberal restoration but for fascism." For many Russians the most comforting route map out of this terrible confusion is the one that leads back to the past. Russia's Communist Party, which was revived - and even temporarily banned - following the dismemberment of the Soviet Union in 1991 has rebounded with remarkable vigour to become the country's most popular party.

Under the guidance of Gennady Zyuganov, the Communists have revised their ideology, dropping much of the historical baggage of Marxism-Leninism and acquiring a belief in the semi-mystical virtues of Russian nationalism. Publicly they are in favour of a mixed economy, freedom of speech and international co-operation. But their more reactionary instincts are apparent in their demands to

secure the media for anti-Serb propaganda, to reinstate the Soviet national anthem and to elect the president by a parliamentary vote. The anti-Semitic rantings of General Albert Makashov, a Communist MP, have still not been fully disowned by his party.

With 500,000 members, the Communist Party remains Russia's best organised political force and seems set to do well in December's parliamentary elections ensuring it can help to set, or block, the legislative agenda. But the electoral calculus sug-

gests the Communist Party will not win the presidency outright.

Opinion polls consistently show that Mr Zyuganov would make it through to the second round of the presidential elections but would then lose to most other candidates.

Nonetheless, Russia's political centre of gravity is likely to shift leftwards in the forthcoming elections even if it stops well short of a full restoration of Communist power. In this sense the government headed by Yevgeny Primakov, the popular prime minister, may already embody Russia's new political equilibrium.

The former candidate member of the Soviet politburo and hawkish foreign minister has won strong support in the Communist-dominated Duma, the lower house of parliament. But he has also proved to be a cautiously pragmatic prime minister, committed to political compromise, gradualist economic reforms and continuing discourse with the IMF.

Mr Primakov has been steadily accumulating power, making him the most likely successor to Mr Yeltsin if pre-term elections are held. The government's crackdown on corruption, the reassertion of federal authority and the promise of long-term stability hold much popular appeal.

Kakha Bendukidze, one of Russia's leading industrialists, says Russia desperately needs a long period of political stability of between three and 10 years to modernise the economy and slowly reallocate capital.

"I consider that I am a liberal," he says. "But stable, left-of-centre politics is better than instability, inconsistency and lawlessness."

Mr Primakov's critics argue that he offers no more than the temporary illusion of stability, amounting to little more than a consensus to stand still.

Sergei Kovalyev, a liberal

Continued on Page 5

Risk. Covered by Allianz Group.

Wherever you are. Whatever you do. The Allianz Group is always on your side. To us risk management means thinking the unthinkable to prevent risk turning into loss. As one of the world's leading insurers our financial strength and technical expertise combine to make Allianz Group the partner you can trust wherever and whenever you need us. Allianz. The Power On Your Side.

Allianz Group, Europe's leading insurance and services financial group.

**Allianz**



THE ECONOMY by Andrew Balls

# Reforms on hold until after the election

New loans promised by the IMF will prevent Russia becoming a complete financial outcast, but little more than that

Russia's economic collapse has not been as bad as most economists expected in the immediate aftermath of the rouble devaluation and the government's default on domestic debt last August.

Despite the subsequent depreciation by 74 per cent, the prospect of a deep recession, and a terrible decline in living standards as wages and pensions continue to go unpaid, Russia has not descended into the hyper-inflationary spiral that many feared.

Although the government's debt burden looks unsustainable (having defaulted on its domestic debt, the finance ministry says it will also default on its Soviet-era foreign debt), new loans promised by the International Monetary Fund will prevent Russia from becoming a complete international financial outcast.

Few economists think that IMF credits will achieve anything more than that.

After a big leap following the devaluation, inflation has stabilised somewhat in the past few months. Consumer prices increased by 2.8 per cent during March, compared to 4.1 per cent in February and 8.5 per cent in January. So far, the government has not run the printing press at full throttle.

The IMF forecasts inflation in 1999 of 100 per cent, combined with a deep recession. Last year the economy contracted by 4.8 per cent. This year the IMF expects it to shrink by 7 per cent.

Although a downturn in investor sentiment following the Asian crisis, and the associated decline in oil prices, contributed to Russia's economic collapse, the

root cause was fiscal indiscipline and the lack of structural reform in the economy. IMF programmes have helped to contain inflation and instead of printing money, the government has made up for its inability to levy taxes through borrowing from abroad. On top of its \$100bn of debt from the Soviet era, the government built up \$50bn of new debt from the private sector and official creditors, including \$19bn to the IMF.

"It was a huge mistake, in retrospect, to hope that lending all this money was a way of making sure that reform was carried forward," says Peter Boone, head of

The IMF's April World Economic Outlook provides a clear analysis of Russia's deep structural problems, including:

- Subsidies, widespread tax exemptions, and the tolerance of non-payment of taxes which allow bankrupt companies to keep going, destroying rather than creating value;
- Federal and local government expenditure arrears, contributing to the spread of non-payment and barter;
- A bankrupt banking sector; and
- Poorly enforced property rights and a weak legal system.

In addition, foreign invest-

The priority of the government, headed by prime minister Yevgeny Primakov, which came to power following the collapse last September, appears to be political survival. With parliamentary elections in December, and presidential elections to be held before next summer, few economists expect it to make any hard economic decisions or progress in reform.

Indeed, most economists see the IMF decision to resume lending as a reflection of political considerations - during the NATO war with Serbia and in the run-up to next year's presidential election - rather than economics. The IMF appears to have backed down on its demands that a credible programme for economic reform be in place before it lends more cash.

"In the past, we always thought it was the US or the G7 leaning on the IMF to come up with a special deal, this time it has been obviously, and brutally, revealed for all to see," says Vladimir Kononov, chief strategist at CSFB in Moscow.

Few observers think that such a deal will provide anything beyond the veneer of financial respectability over the next year.

There is little sign that the government will take any great strides to improve the public finance malaise, at the root of the debt problem, or to tackle the failure of institutions to collect taxes from big companies, particularly in the energy sector.

Nor is it likely that capital flight will be addressed. Russia's official reserves have not benefited from its trade surplus because big companies, and powerful individ-

research at Brunswick-Warburg in Moscow.

"What we have done is to leave the country with \$150bn of loans which there is no way the federal government can repay."

In 1998, federal revenues amounted to 10 per cent of GDP. The federal government deficit, on the IMF's measure, was 6 per cent of GDP. Following devaluation, Goldman Sachs forecasts that in dollar terms, Russian GDP will be around \$163bn this year, one third of its 1997 value.

If the federal government collects 10 per cent of GDP again this year, even the entire budget would not cover its external obligations in 1999 of \$17bn. Central bank reserves stood at around \$11bn in March.

Many observers see this as hard to justify on economic grounds. It would be even harder to justify net new lending.

could only regurgitate his notes on macroeconomic policy without comprehending them.

In customary fashion, President Boris Yeltsin then leapt into the fray this month. He criticised the government's economic team for failing to address the country's problems with sufficient vigour and hinted he might sack them all.

With such a bling, it comes as something of a surprise to discover that Mr Maslyukov does not have horns. A stolid, genial man, he exudes an air of calm reasonableness and chuckles at the criticisms levelled against him.

The 61-year-old former Communist MP vigorously defends the government's economic record over the past six months arguing it has been "super-pragmatic" in the circumstances.

Contrary to widespread fears, the government has not abandoned tight monetary and fiscal policies. Some money printing was inevitable to pay off wage and pension arrears but it has been kept to a minimum. The government now promises to run a primary budget surplus (before interest payments) of 2 per cent of gross domestic product this year - its

tightest budget since reforms began.

"I want to emphasise that the government of Russia will purposefully and consistently pursue economic reforms," he says. "Our goal is the creation of an effective, competitive and socially-oriented market economy."

Mr Maslyukov's supporters argue Russia's "young reformers" may have understood textbook theory but they had no practical experience of how industry works. Besides, it is unfair to portray Mr Maslyukov as a Communist dinosaur. He was first appointed as trade and industry minister last year by Sergei Kiryenko, the impeccably liberal prime minister. In the Gorbachev era, Mr Maslyukov was himself regarded as something of a "young reformer" for his proposals to overhaul the Soviet planning system.

Few doubt that Mr Maslyukov is beginning to ask the right questions. How can the government encourage greater investment? How can the state become a helping hand? How can Russia prevent massive capital flight without reimposing draconian capital controls?

## Macroeconomic outlook

	1997	1998	1999
	Actual	Forecast	Forecast
Production and prices: Annual % change			
Real GDP	9.8	-4.8	-7.0
Consumer prices: annual average	14.7	27.0	104.5
12-month year-end	11.0	94.5	38.0
Public sector, federal government: % of GDP			
Fiscal balance	-7.0	-6.0	-
Revenue	12.0	9.0	-
Expenditure	19.0	15.0	-
External sector: (\$USbn)			
Total exports	98.7	73.3	74.0
Total imports	74.0	68.0	42.5
Current account balance	-0.8	-1.4	14.0
Government external debt service	12.0	12.0	-
% of exports	12.7	20.5	-
Stock of external government debt	131.5	140.0	-
% of GDP	22.7	45.2	-

Source: IMF World Economic Outlook



Poster in Moscow: 'Please pay your taxes' Andrew Balls

als, keep their capital abroad. Capital flight amounts to \$2bn a month.

There is little chance of a serious attempt to sort out the banking system, impose hard budget constraints on default companies, or to tackle the deep-seated problem of non-payment and barter.

According to Boris Fyodorov, former finance minister and a leading reformer, another bail-out will achieve nothing, except "help in allowing incompetent people to buy more time to do nothing".

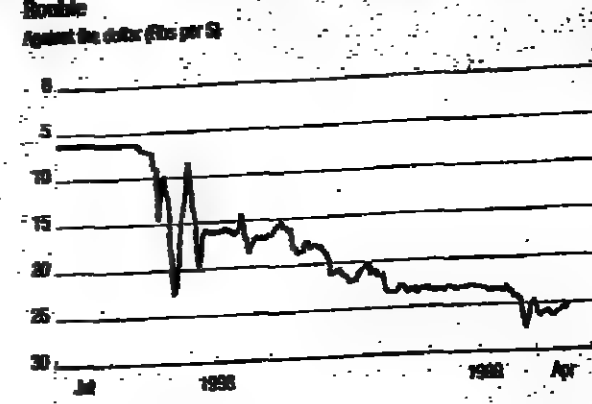
"Is the IMF - or anyone else - really stupid enough to believe that after five or six years of lies being told, and being accepted, that when the government says it will have a 2 per cent pri-

mary surplus in the budget this year, it will really mean anything?" Mr Fyodorov asks. "As far as structural reforms go, there is little evidence of anything, and it is very difficult to believe that something suddenly will appear."

Rather than economic reform, Yuri Maslyukov - the former Soviet head of state planning, now first deputy prime minister for the economy - is concentrating on lobbying for a write-down of Russia's Soviet-era debt.

Following the IMF's decision to resume lending, Mr Maslyukov has set his sights on persuading Russia's Paris Club creditors to forgive 75 per cent of its debt.

Most economists see that as rather hopeful. The Ger-



Source: Bloomberg

man government, the biggest lender, is unlikely to agree to anything more than modest restructuring. Defaulting on sovereign repayments will not win the government any friends in the Paris Club.

According to Vladimir Mau, head of the Government Centre for Economic Reform, a government think-tank, there is unlikely to be much progress in restructuring Russia's Soviet-era debt. "It is more or less clear that the present government cannot tackle it before the election, and it could take five years, once a new administration is formed," Mr Mau says.

Although the IMF is unlikely to provide very much additional money, on top of that needed to cover Russia's IMF obligations, IMF loans will open the door to credits from the World Bank, and possibly from the Japanese government. But there will be little new finance for Russian companies unable to borrow from the paralysed domestic banking sector.

Russian exporters have not benefited from a great leap in competitiveness following the devaluation. Although domestic production costs have fallen, oil and gas, and the other natural resources which make up the bulk of Russia's exports, are priced in dollars. This means that the external adjustment is taking place through a decline in imports.

However, domestic import-substituting industry has not increased production substantially, mainly

because of a lack of finance.

In his state of the federation address in March, President Yeltsin summed up the state of the Russian economy in this way: "We have become stuck half way in our transition from the planned and command economy to a normal market economy."

However, there is unlikely to be any serious economic reform or improvement in the dismal outlook for the economy before next year's presidential election.

Indeed, the effect of the political cycle of parliamentary and presidential elections could cause the government to start printing money to pay wages and bills. The fledgling signs of macroeconomic stabilisation through economic inaction could be threatened by inflationary electioneering.

Even after the election, Russia's transition may proceed very slowly. The events of the past year have given economic reform, and liberal economists in particular, a bad name in many Russian households. According to the World Bank, by early next year, 50 per cent of the population face the prospect of living on less than half the government's official minimum subsistence income, currently Rbs830 (834) a month.

Russia's economic decline has not been as bad as most economists expected following last August's financial collapse. Yet the decline in living standards, measured in falling incomes, is shocking.

## Seeking a way out of shadows

Continued from Page 1

MP, says Mr Primakov's artfully crafted coalition will fragment the moment it takes the tough decisions needed to drag Russia's economy out of its crisis.

This cabinet can manoeuvre to preserve the balance at the top of the pyramid of power," he says. "But it has no chance of solving economic or financial or political problems in the country."

A more dynamic, and proven, blend of Communist and capitalist instincts may be offered to the electorate by Yuri Luzhkov, Moscow's pugnacious mayor. His stock slogan is that Russia, like Moscow, should work according to capitalist methods and share the profits according to socialist principles.

Although Mr Luzhkov has not yet declared he will contest the presidency, he has founded a new political movement, Otechestvo (Homeland), to compete in the forthcoming parliamentary elections.

"The basis of the Otechestvo programme is overcoming the impotence of power, restoring all the functions of the state," Mr Luzh-

kov says. "Only a strong state can establish a democratic order and maintain it. Only a strong state can create conditions for economic growth, support of domestic producers and a sound financial and monetary policy."

Such interventionist talk has raised concern that Mr Luzhkov is intent on creating "nomenklatura capitalism". Human rights groups protest about the Moscow government's rough treatment of minority groups.

The US administration, in particular, appears somewhat uneasy at the prospect of Mr Luzhkov becoming president.

But Vyacheslav Nikonov, president of the Politika think tank and an adviser to Mr Luzhkov, argues that Moscow's mayor runs the most democratic and market-minded region in the Russian federation and would hardly resort to authoritarianism if he became president.

"I am sure that any future regime will be tougher than Yeltsin's in so far as his regime is anarchic," he says.

"There is lack of power, a lack of enforceable laws, a lack of any considered policies. If the next regime is any softer, then Russia will

not exist."

But Mr Yeltsin's - and, implicitly, the west's - clear preference is for Russia to continue to pursue liberal "reforms", however that much-mangled term is defined. Mr Yeltsin appears to believe his historic destiny is to hand Russia on to a new generation of younger, post-Communist leaders.

The trouble is he has discredited almost all the forces capable of fulfilling such a role and lacks the political authority to deliver such an outcome.

With the notable exception of Grigory Yavlinsky, the leader of the Yabloko party, the forces of liberalism have been discredited by their association with Mr Yeltsin's regime. In their more sombre moods, Russia's liberals concede they are only pinning their hopes on the presidential elections of 2004.

Mr Yeltsin will bequeath a deeply flawed legacy to his country. But his last, and perhaps greatest, gift to his compatriots could be to let them choose their future by themselves.

For, as the Kommersant newspaper observed, the Russian people have invariably proved much wiser than their leaders.

## PROFILE YURI MASLYUKOV

### Politician who is asking the right questions

A stolid, genial man, Mr Maslyukov exudes an air of calm reasonableness and chuckles at the criticisms levelled against him

There were shrieks of alarm among liberal economists in Moscow when Yuri Maslyukov, the former head of Gosplan, the Soviet state planning agency, was appointed first deputy prime minister in charge of the economy in September.

"How can the former head of Gosplan understand - let alone solve - the problems of a modern, complex market economy?" asked one.

The International Monetary Fund has found it particularly difficult to deal with Mr Maslyukov and has

bristled at his accusations that it has put the government under "indecent" pressure. At key points in their marathon talks, Mr Maslyukov has been replaced by Mikhail Zadornov, the young, liberal finance minister, who is admired in Washington.

Grigory Yavlinsky, leader of the liberal Yabloko party, has also attacked the government's economic bloc alleging it was selling ministerial jobs to crony friends. He compared Mr Maslyukov to a second-year economics student who

## The Russian Regional Key Bank Your Reliable Partner

- Industry & Construction Bank (ICB) today is the largest bank in Northwestern Russia with 43 branches in Russia.
- General Banking Licence of CBR No439 10.09.96
- According to an independent research conducted by GALLUP in 1999, the Bank has managed to weather the financial turmoil and enjoys the confidence of its customers.
- For the year 1998, the Bank's total assets increased by 70% to R 8034.2 million. As of January 1, 1999, ICB was the 9th Russian bank in terms of assets including interbranch turnover and the 12th in terms of net assets (Top 100 Russian Banks by Financial Gazette newspaper, according to Russian accounting standards).
- During 1998 the Bank's equity increased by R 35.9 million to R 930.6 million.
- In 1998 ICB was included in Top 500 Europeans (The Banker, September, 1998).

- For the year 1998, the Bank's loan portfolio doubled to R 675.2 million.
- ICB's share in the St. Petersburg market: more than 20% in terms of number of corporate customers and 7.5% of retail market.
- ICB provides a wide range of services to more than 49 000 corporate customers. The aggregate customer accounts increased by 53.9% to R 2 867.5 million, as of the year end. The Bank's customer base includes regional authorities and 14 corporations listed in Top 200 Russian enterprises.
- The Bank holds the accounts of more than 220 000 private individuals. As of January 1, 1999, the volume of retail deposits with ICB was R 653.6 million.
- Since 1993 the Bank's auditor is Price Waterhouse (PriceWaterhouseCoopers).
- ICB has obtained rating from the international rating agency Thomson BankWatch.
- The Bank takes part in 5 programmes of EBRD and The World Bank.

- In 1998 ICB actively carried out operations on the international financial market and was accredited by HERMES Kreditversicherung AG (Germany), GEK (Norway), EKF (Denmark), OND (Belgium), NCMI (Holland), EGAP (Czech Republic) and under GSM-102 programme (USA).

INDUSTRY & CONSTRUCTION BANK  
Адрес: 17/18 Kovernsky, 191014, St. Petersburg, Russia  
Tel.: 7(812) 329-84-51 Fax.: 7(812) 310-61-73

# FUELLING SUCCESS.

The Moscow Narodny Bank and our Moscow subsidiary Mosnarbank have agreed to provide \$20M of finance **AEROFLOT** for Aeroflot, the national airline of Russia.

It's an example of the bank's capability to structure working capital facilities for major Russian corporates who generate hard currency export revenues.

With over 80 years experience, we are uniquely placed to help your company profit from recovery in Russia. To find out more contact our Corporate Banking Department.

**MNB**  
MOSCOW NARODNY BANK  
INCORPORATED IN THE CITY OF LONDON SINCE 1919

TEL: +44 171 623 2066, FAX: +44 171 283 4840, email: chd@mosnar.com  
REGULATED BY THE SECURITIES AND FUTURES AUTHORITY.

مكتبة الامم المتحدة



OIL AND GAS by Anthony Robinson in Moscow

## Rouble devaluation boosts exports

There has been a 40 per cent rise in oil company share prices on the battered Moscow stock exchange since the start of the year

Export-orientated Russian oil companies and the monopoly gas giant Gazprom have been the biggest gainers from the nearly 70 per cent devaluation of the rouble since August. The collapse of the currency sharply reduced domestic production costs and further strengthened the attraction of hard currency export markets.

Over the past few months the advantages of this lower cost base have been reinforced by the surge in global oil prices beyond the \$15 per barrel mark following Opec production cuts. The most visible consequence has been a 40 per cent rise in oil company share prices on the battered Moscow stock exchange since the start of the year and a new willingness of managements to look beyond the pressures of day-to-day survival and re-think longer-term strategies.

Lukoil, for example, which is Russia's biggest oil company and which drew up a long-term strategic co-operation agreement with Gazprom last year, announced in mid-April the outlines of a 10-year corporate strategic plan. Its main goal is to raise productivity and future profitability by concentrating investment on nine major projects, including the rich Timan Pechora oil fields in the Arctic region.

A few days later Agit Alekperov, Lukoil's chairman, revealed that Sherbank, the state-owned savings bank which is flush with state-guaranteed savings re-directed from failed banks, had agreed a \$150m, three-year loan at rates well below that which even a Russian blue chip company such as Lukoil would have had to pay internationally.

The other important re-organisation project under review is a controversial government-inspired plan to merge its remaining oil

interests into a unified National Oil Company (NOC). The plan to merge Slavneft, Omsk and Rosneft, three very different companies with different assets and liabilities located far from each other, would create a combined group producing around 30.6 per cent of national oil output. However, the plan has been strongly opposed by the big private companies which lack the cash to buy the additional assets, but argue that they would be better placed to manage them more efficiently than any state-appointed manager.

Lukoil and Yukos declared an interest in absorbing some of the proposed state

### The collapse of the rouble sharply reduced domestic production

company's assets while TNK, the Tyumen Oil Company, in which the government has a 46 per cent stake, proposed merging with NOC but essentially taking over managerial control.

Meanwhile, the shock of lower world oil prices last year brutally undermined the inefficient, high-cost nature of Russia's post-privatisation oil industry which suffers as a result of the long distances of the major oil fields from export markets, the legacy of decades of wasteful production-at-any-costs methods and the poor technology employed in Soviet times.

Lower prices forced managements to take a hard look at their production, refining and transport costs and to lobby hard for lower taxes.

The investment picture is a mixed one, however, depending largely on individual companies' access to export revenues. Those

dependent on often barter-based domestic sales at well below international prices face the biggest financial and other problems. Yukos Oil, for example, the heavily indebted conglomerate headed by Mikhail Khodorkovsky whose industrial/financial group was among the hardest hit by the August financial crisis, has cut its investment budget to a bare minimum \$80m this year. Although Russia's second largest oil company after Lukoil, Yukos exports a relatively low 20 per cent of its output.

At the other end of the spectrum, Lukoil is planning to raise production and investment while Surgutneftegaz, Russia's third largest oil company, has no foreign debt, exports more than 40 per cent of its crude production and intends to raise crude output by 1.4 per cent this year and invest heavily in drilling more than 600 new wells, including 81 high-tech, horizontally-drilled wells.

Although a widening gap is emerging between the more efficient or more export-orientated companies and the more unwieldy and indebted companies, Sergei Generalov, the fuel and energy minister, forecasts that Russia's overall crude oil output this year will fall by 6 per cent, or by around 360,000 barrels/day, largely as a result of closing or mothballing marginal wells and lower investment. Given the expected 5-8 per cent decline in overall GDP this year, lower oil production will be matched by lower domestic consumption rather than any significant decline in exports.

A re-structuring of the industry is under way in which the financially stronger and the more professionally-managed companies are seeking to acquire more national blocks of territory, modernise and upgrade their



### CASE STUDY NIZHNEVARTOVSK

## Cold comfort for one-company town

More than half of the 250,000 residents work for Nizhnevartovskneftegaz

Times are hard in Nizhnevartovsk, a town of 250,000 people on the banks of the river Ob in western Siberia.

Situated on the edge of the Samotlor oil field, where temperatures can fall below minus 50 Celsius, Nizhnevartovsk really is a one-company town. More than half of its residents work for Nizhnevartovskneftegaz, part of the Tyumen Oil Company (TNK).

Before Russia's devaluation, average wages for production workers at the company were \$520 per month in dollar terms. Now, the sum is less than \$200. Although accommodation and utilities are heavily subsidised, most of the food prices people face are linked to the dollar. "Last year I was saving to take my daughter on holiday," said one local resident. "Now I struggle to buy bread and milk."

It is not only living standards in the town that have suffered. Russia's economic collapse threatens to knock TNK's ambitious investment plans off course. Nizhnevartovskneftegaz was bought by the TNK after its old, corrupt management team drove the company into bankruptcy. Its majority shareholders now are Alfa Bank, a Moscow-based bank, and a consortium of Russian and American private investors. The Russian government still retains a minority stake.

In February 1997, Simon Kukus - a Russian-born, US-trained expert in oil technology - was appointed president of TNK. Mr Kukus has made it his mission to reduce costs, and increase market capitalisation. "We have very different goals from Russia's oil generals and oligarchs," he says. When he was appointed in February 1998, production

costs were \$12.5 per barrel. By August 15 last year, on the eve of the devaluation, production costs had been cut to \$8.2pb. Following the devaluation, the cost now is \$3.7pb.

Cutting costs has meant job losses. TNK has laid off 22 per cent of its workforce, and expects to cut jobs by a further 3 per cent.

Therefore it is not surprising that some Nizhnevartovsk residents are suspicious of Mr Kukus, a former head of technology at Amoco, the US oil company, and his "western-style management team" - which is based in Moscow.

Mr Kukus responds that he has kept job losses to a minimum: "If you lay off skilled workers, it is hard to find them again." Moreover, unlike many Russian companies, TNK has worked hard to eliminate wage backlogs, he says.

The company cannot afford to make up for the effect of the rouble's collapse on living standards, Mr Kukus says. "But we do pay our employees on time. When I took over, the company was five months behind with salaries. Now it is just one month."

Mr Kukus' preoccupation at the moment - along with struggling with the government, a time-consuming matter for all Russian executives - is stabilising production levels in the oil fields that support TNK, and the town of



Simon Kukus (front left) committed to reducing costs Andrew Bails

Nizhnevartovsk. This is no easy task. First, the fields were over-exploited in the past, while their upkeep was neglected. TNK needs external finance to rehabilitate the Samotlor oil field, and update the Ryazan oil refinery. Both projects were due to start in the second half of this year. TNK has lined up foreign technical assistance. But both require long-term finance, which will have to come from abroad.

The slump in world oil prices, Russia's economic collapse, and now Nato's war with the former Yugoslavia, make raising foreign capital a difficult task. Following the Russian devaluation last August, TNK was able to secure a \$105m loan from the Westdeutsche Landesbank, the German Bank, the second tranche of

a \$300m facility. However, a planned 11-year, \$600m loan from the US Ex-Im Bank - due to be completed in April - appears to have been thrown off course.

Mr Kukus says he is not deterred. The company hopes to complete the deal later in the year. Moreover, the recent rise in oil prices provides a chink of light. With revenues now expected to be greater than forecast in this year's business plan, the company can start work on the fields without foreign money.

Last year, Nizhnevartovsk celebrated its 25th anniversary. Renovation of the Samotlor oil field will guarantee production levels at Nizhnevartovskneftegaz for the next 25 years, Mr Kukus says.

Andrew Bails

refineries and complete the verticalisation process from crude production to downstream marketing. In a belated attempt to stimulate this process and to encourage the kind of foreign investment and technological and managerial skills required, Yevgeny Primakov, the prime minister, personally pressed the duma to pass long-delayed profit-sharing agreement (PSA) legislation which some analysts calculate could open up projects totalling \$100bn to foreign participation.

Whether foreign investment on such a scale materialises, depends largely on the overall political and legal climate and the degree of willingness of Russian partners to work openly with their foreign partners.

It is for this reason that the eyes of many foreign oil companies are focused on the development of BP-Amoco's relationship with the Sidanco oil company in which BP bought a minority 10 per cent stake for \$971m 18 months ago. Last month BP-Amoco wrote off \$300m from this investment and has been battling to create a more transparent culture within the company which is controlled by "oligarchs". Vladimir Potanin and beset by a series of complex legal disputes affecting major production subsidiaries.

While the oil industry is in the throes of rationalisation, Gazprom is busy consolidating its key European market and pushing ahead with plans to boost gas sales to Turkey and Asia. Blessed

and cursed with virtually infinite deposits but tucked away in the Arctic north, Gazprom is pushing ahead with big new pipelines through Belarus and Poland to supply northern Europe, and southward through Ukraine, Romania and Bulgaria to southern Europe and western Turkey.

But Gazprom's controversial "Blue Stream" project with Italy's ENI, which includes a 386km underwater pipeline to a depth of 2,150 metres through the deadly hydrogen sulphide-saturated waters of the Black sea, is facing increasing competition from a US-backed plan to supply Turkey with gas from Turkmenistan. The rival \$2.4bn project, involving Bechtel and General Electric Capital,

plans to supply up to 30bn on metres of Turkmen gas annually. It includes a pipeline under the Caspian sea and passage through Azerbaijan. The latter favours the scheme partly because it would facilitate Baku's main ambition - to build a US government-backed Caspian oil main export pipeline through Turkey to Ceyhan on the Mediterranean.

Looking further ahead Gazprom also aims to become a big supplier of natural gas from the Arctic to China and other Asian markets, including South Korea. But BP-Amoco, whose proposed merger with Atlantic Richfield will make the merged group one of the biggest operators in the Caspian region, has similar ambitions. One of the main

attractions behind BP's purchase of a 10 per cent stake in Sidanco was the Russian oil company's 80 per cent stake in the Russia gas consortium which owns the Kovytkha deposit west of Irkutsk.

Kovytkha is smaller but several thousand kilometres closer to China than Gazprom's Arctic reserves. When Zhu Rongji, the Chinese premier, visited Moscow in March one of the highlights of a visit aimed at quadrupling Sino-Russian trade to \$600bn a year by 2008 was an agreement to push ahead with a feasibility study on the Kovytkha project. China could well rival or even exceed Europe as Gazprom's biggest customer as the next century advances.



"Hey Dad, where in the world are Baku, Yerevan and Atyrau?"  
"Just follow the red arrow, my son!"



"Yes, my son, if you want to get to know the new Europe and Central Asia, you should ask Austrian Airlines for their flight schedule. You will find 35 destinations in 23 countries, including the three new destinations Baku, Yerevan and Atyrau". This is especially interesting for businessmen like myself because it gives me even more opportunities to take advantage of the network of the Austrian Airlines Group. It is also the reason I can always return to you so quickly. If that's true, Dad, then I like Austrian Airlines. So do I, my son."

AUSTRIAN AIRLINES

The Most Friendly Airline



\*as of March 28th/1999

The Qualifier Group



FOREIGN POLICY by Charles Clover

# Old era intrudes on new era thinking

Many in Russia believe that the next century will be more like the 19th than the 21st; that world politics is fast reverting to a system based on 'balance of power'

With the world poised at the threshold of a new millennium, many western statesmen have promised a fundamental shift in international relations, brought about by the end of the Cold War which, they claim, will give way to a new world order of global harmony, commerce, and co-operation.

But many in Russia believe just as fervently that the next century will be more like the 19th than the 21st, that world politics is fast reverting to a system based on "balance of power", which typified Europe in the last century.

Ironically, the catalyst for such an "old world order" based on alliances rather than multilateral institutions, may have been supplied by those same western statesmen. Their decision to expand Nato earlier this decade set off geopolitical tremors that became a full-blown earthquake in March after Nato - however pure its motives - attacked Yugoslavia without a United Nations mandate.

Russia counts Orthodox Serbia as one of its longest-standing traditional allies. It was willing to go to war for the Serbs in 1877, and again in 1914. The war-mongering of hard-line deputies in the state Duma, Russia's lower house of parliament, may well ensure that the world has not yet seen the worst of what Russia can do in the Balkans.

But the real crisis may be yet to come. However, the Balkan crisis ends, it is clear to many nations - most of all Russia - that in the post-Kosovo world, the key to security will be alliances based on Bismarckian realpolitik rather than multilateral institutions based on international law.

"The US violation of a decision of the UN security council will have the same effect on world security as the assassination of the Archduke Ferdinand in 1914. In this case, it will disintegrate the system of providing security through the United Nations," said Vladimir Avricher, a leading member of the state Duma's committee on international affairs, who hails from the moderate Yabloko faction.

Russia has actually been preparing for the post-Kosovo world for some time. The concept of a "multi-polar world" has become increasingly popular among Russia's foreign policy elite since the dream of a post-cold war partnership with



Yevgeny Primakov made "multi-polarity" his slogan

the west faded in the early 1990s. Yevgeny Primakov, Russia's enigmatic prime minister, has practically made "multi-polarity" his slogan since he was made foreign minister in 1996.

The concept of a "multi-polar world" is based on an obscure theory of international relations, which posits that a world with many diverse power centres will automatically oppose a hegemony, such as the US. In this way, it is similar to the state system in 19th century Europe, which mobilised alliances to contain the strongest element.

A "multi-polar" world, in other words, is a profoundly anti-American one. International reaction to the Yugoslav conflict has seemingly vindicated this theory.

Mr Primakov, for example, has long advocated the concept of a Russia-China-India triangular alliance in Eurasia, an idea that always seemed to be a non-starter as long as economic, rather than military and political, might set the world's agenda. But following Nato air strikes on Yugoslavia, both China and India have sided with Russia against Nato, and have expressed interest in deepening security contacts.

Mr Primakov actually encourages the comparison

with the 19th century through his choice of role models. In a recent article in the Russian journal International Affairs, he heaped praise on Prince Alexander Gorchakov, foreign minister under Tsar Alexander II from 1866-1882, who returned Russia to greatness following the debacle of the Crimean War, by securing alliances with Germany and Persia.

Mr Primakov did not invent multi-polarity. In fact, he is picking up the loose ends of an old Soviet doctrine laid down under the leadership of Mikhail Gorbachev in the 1980s, which was forgotten in the early 1990s with the end of the cold war. By the mid-1980s, many in the Kremlin had already come around to the view that the long-standing Soviet doctrine of trying to be militarily as powerful as all possible competing coalitions was not only ruining the Soviet economy, but was self-defeating, because it was driving the world into the arms of the US.

Starting in the Gorbachev years, Soviet planners re-engineered their security doctrine and foreign policy with the aim of taking advantage of multi-polarity, rather than resisting it with a military build-up. It was the diplomatic equivalent of an eastern martial art, designed to

use the force of an enemy against the enemy.

For example, Marshal Sergei Akhromeyev, former chief of the general staff, revealed in 1990 his primary reason for supporting the unification of Germany and the withdrawal of Russian troops from eastern Europe. Once these had occurred, he said in a press interview, "Nato has no right to exist".

It is still not clear whether this remains a prophecy, or a bad miscalculation. Nato has not disappeared. Indeed, it expanded last month to include three new members.

But rumblings within Nato for a more European-based defence organisation have grown steadily louder.

It is clear that with the end of the cold war, US commitments to defend Europe and eastern Asia have become aimed more at preventing Germany and Japan from re-arming, than at defending them against an external threat. It is not impossible, Russian theorists say, that both Germany and Japan will tire of alliances aimed primarily at them.

Soviet policy of the Gorbachev years was ultimately aimed at creating a "disengagement zone" along Eurasia's periphery, in which Moscow plays the role of primary strategic balancer. This may be what Mr Primakov is working towards.

Some theorists even dream of a Eurasian "axis" of Moscow-Berlin-Tokyo-Tehran. This was the subject of a recent book by far-right intellectual Alexander Dugin, who had help from Russia's military academy of the general staff.

His focus on geopolitics - Russia's unique geographical position in the "heartland" of Eurasia, has been copied by many on the right and left wing fringes of Russian politics.

Gennady Zyuganov, chairman of Russia's Communist party, and author of the 1996 geopolitical manual *Geography of Victory*, theorises a consolidation of the Orthodox Christian world into a single bloc, which forges ties with the Islamic world along with other conservative Eurasian states, such as China, based on common opposition to the US.

"We live in an age where geopolitics is literally knocking at the door," writes Mr Zyuganov. "And ignoring it would be not only a mistake, but a crime."

RUSSIANS ABROAD by Charles Clover in Ashgabat

# Memories of expatriates are made of Pushkin

Turkmenistan's Russians are preparing for the 200th anniversary of the birth of the bard

After a hiatus of 35 years, Renat Ismailov, director of the Russian drama theatre in Ashgabat, Turkmenistan, will take to the stage again on June 6 to celebrate the 200th anniversary of the birth of Alexander Pushkin, the legendary Russian poet.

Mr Ismailov will be writing a play in honor of Pushkin, and he has reserved one of the roles for himself. "Pushkin," he says, "is the original voice of Russia. He made Russian a literary language."

But his decision to return to the stage is due as much to expediency as homage to the immortal Russian bard. Mr Ismailov has what he calls an "actor deficit" caused by emigration of most of his troupe since the collapse of the Soviet Union in 1991.

The native Russian speakers who are the backbone of the Russian drama theatre are increasingly dwindling in Turkmenistan, as they are in other non-Russian republics of the former Soviet Union. While there are enough actresses for female parts, Mr Ismailov has only a handful of actors, including the wonderfully talented Yuri Karabin, who can hold down a strong role.

Because of this mismatch, Mr Ismailov has been forced to use scripts with many female roles and only one male lead. The common theme of most of the plays he directs, is - in the grand tradition of Pushkin's *The Fountain of Bakhchisaray* - married men who have lots of female lovers.

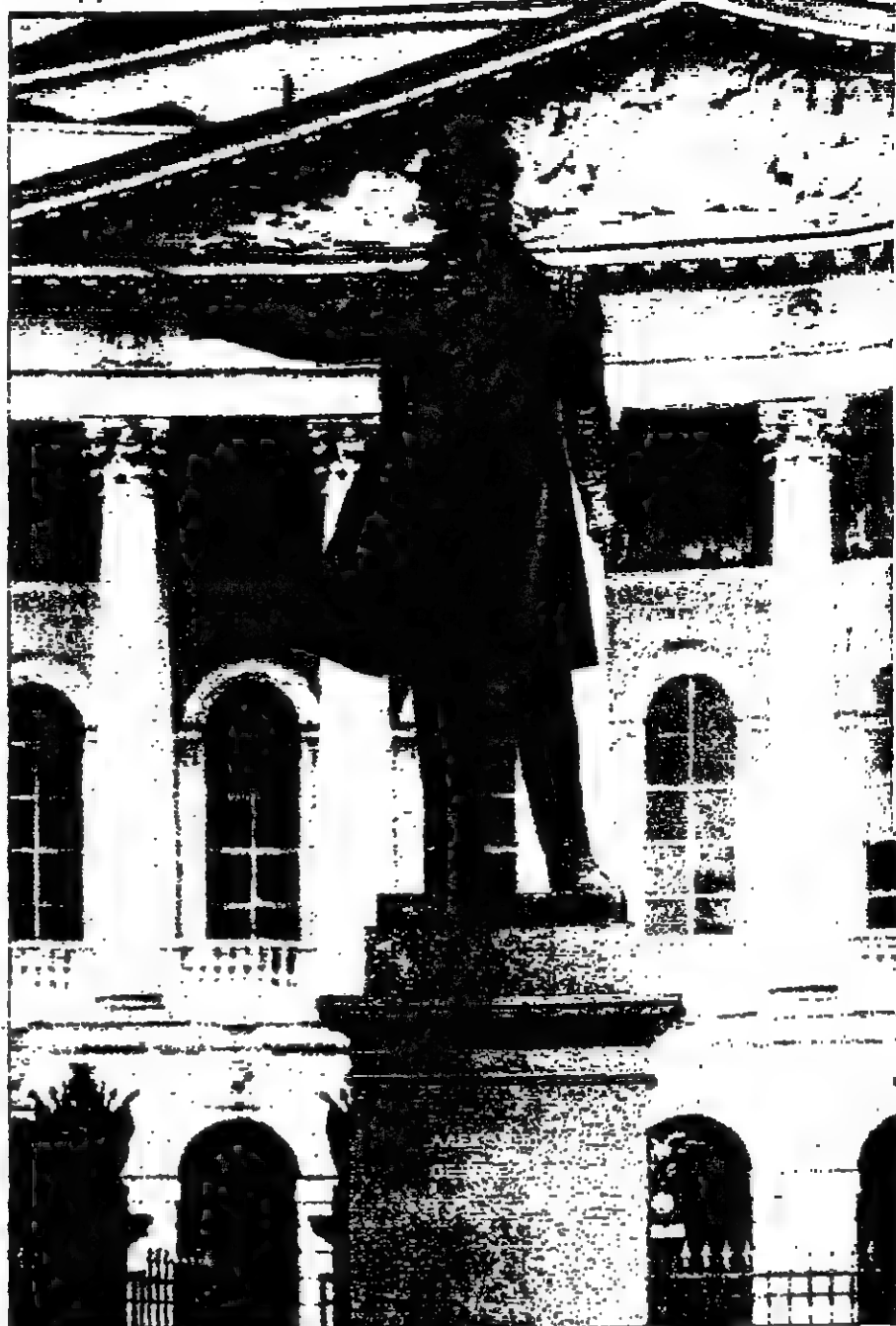
Mr Ismailov and Mr Karabin both grin mischievously when this is brought up.

"In our heyday, we could put on Shakespeare's *Julius Caesar* or Pushkin's *Boris Godunov*. Imagine!" Mr Ismailov sweeps his hands, and one can briefly almost see the pageantry unfold beyond the footlights. "Now we do mostly lyrical-satirical irony."

But marital infidelity portrayed in plays such as *Julius Caesar* and *Nadezhda Pushkina's Come In and Take Away*, is actually a metaphor for the overwhelming feeling of most Russians in Ashgabat for the loss of their community, of being foreigners in what was once their own land.

It is a drama that is only too familiar to communities - regardless of nationality - everywhere in the former Soviet Union.

In Soviet times, school pupils everywhere memor-



Alexander Pushkin's statue in St. Petersburg

Novosti (London)

ised Pushkin classics such as *The Fountain of Bakhchisaray* and *Ruslan and Lyudmila*, and Russian culture and language came to be the force that bound the union together. Indeed, Mr Ismailov, an ethnic Tatar, can say convincingly that Pushkin was like his "mother's milk".

But in the wake of hard-won independence struggles, not all governments of the newly independent states have welcomed Russian culture and language as a force for harmony and reconciliation.

In Ukraine, where roughly half of the citizens claim Russian as their first language, the issue of Russian heritage has been increasingly politicised, especially in the run-up to the presidential elections in October.

Many in Ukraine's Russified east are calling for Russian to be made an official state language, along with Ukrainian.

In 1994, ethnic Russians in Ukraine's Crimean peninsula tried to secede from Ukraine and join Russia.

Meanwhile, the rights of ethnic Russians living in the Baltic states have, since independence, been as much of a headache for those governments as for Moscow.

And in Kazakhstan, more than 1m Russians and Ukrainians have emigrated, and those that remain complain increasingly of ethnic discrimination, which some fear could lead to separatism in the mainly ethnic Russian north in contrast with the ethnic Kazakh south.

Nostalgia for Pushkin runs as deep as nostalgia for an often completely mythical version of the Soviet Union, when life, despite shortages, despite censorship, was more certain. It was a time when even in the most exotic places, such as desert Turkmenistan, everyone had some place where they belonged.

Mr Ismailov pauses ever so slightly and his eyes gleam whenever he says the Russian word *ranshe*, which means "previously", that is, in Soviet days.

Tanya Kostenko, 24, the youngest member of the theatre, says: "While the Soviet Union held us together in a formal way, Pushkin still holds us together in an informal way."

## PROFILE SERGEI KOVAYEV

### The voice of modern liberalism

The MP condemned President Yeltsin's invasion of Chechnya and risked his life by witnessing the tragedy at first hand

Sergei Kovalyev, one of the founding fathers of Russian liberalism, is not afraid to tell the uncomfortable truth no matter what the circumstances or potential consequences.

In Soviet times, the eminent biologist spoke out against the regime's abuses of human rights and thereby earned himself a long spell in the Gulag. In post-Soviet times, the prominent MP condemned President Boris Yeltsin's invasion of the breakaway region of Chechnya and risked his own life by witnessing the unfolding tragedy at first hand.

Today, Mr Kovalyev is again warning of the threat of a "national catastrophe" as the country drifts towards authoritarianism and he is urging his fellow democrats to unite in defence of the rule of law and political pluralism. Given the famously fractious nature of Russia's democratic parties, many politicians may dismiss Mr Kovalyev's views as Utopian. But, as he observes, Russia is a "land of miracles". "I do not dismiss the possibility that this might yet come about," he says.

The historic problem of

Russia's liberals has been that they have dissipated their political strength. The last parliamentary elections in December 1995 were contested by 45 parties - even though a party had to win 5 per cent of the vote to gain any parliamentary seats. Psychologists marvelled at the way this suicidal behaviour ensured the highest number of "wasted" votes of any election. It also helped the unified Communist cohorts win a disproportionate share of the seats.

The murder last year of Galina Starovoltova, one of Russia's most courageous human rights campaigners, convinced many democrats of the imminent danger of authoritarianism and the urgency for action. "Democrats only unite when they are under threat," says Mikhail Gorny, a director of Strategiya, a civil society centre in St Petersburg.

As a result, several well-known liberal politicians - including Yegor Gaidar, the leader of Russia's Choice party, Boris Nemtsov, the former governor of Nizhny Novgorod, and Boris Fyodorov, leader of the Forward Russia movement -



Sergei Kovalyev: again warning of the threat of a 'national catastrophe'

Kommersant

came together to form the Pravo Delo (Just Cause) party. It intends to contest December's parliamentary elections on a common platform aiming to win about 10 per cent of the vote.

Mr Kovalyev argues that the creation of Pravo Delo is undoubtedly a step in the right direction. But he suggests the alliance must now make greater efforts to entice other right-of-centre parties, such as the social democratic Yabloko movement, headed by Grigory Yavlinsky. Into a broader coalition.

Before this can happen Mr Kovalyev acknowledges there will have to be a fundamental change in the political culture of the country. "So far we have not learned political wisdom from the west but only the technicalities of politicking,

of manipulation of opinions," he says.

Mr Kovalyev argues that Russian politicians must bury personal antagonisms and develop a greater sense of collective responsibility. "In the west, the concept of compromise is a necessary and very important element. But in Russia we have traditionally despised compromise," he says.

"From my primitive viewpoint, I have considered and I still consider the chief secret for the broad unification of the democrats, is the overcoming of personal ambitions and a feeling of responsibility," Mr Kovalyev says.

This independent-minded Mr Yavlinsky, whose Yabloko movement currently forms the fourth biggest parliamentary faction, has for

years resisted the idea of associating himself with the "failed", unpopular, ex-ministers, who now lead Pravo Delo. Instead, Mr Yavlinsky seems more inclined to ally himself with the Otchestvo movement founded by Yuri Luzhkov, Moscow's pugnacious and interventionist mayor.

But Mr Kovalyev will still strive to persuade the voters of the need for a broad democratic coalition, capable of marshalling the support of the anti-Communist majority in the country. "This process can be more successful if the electors put more pressure on their leaders," he says. "We are capable of such unity."

John Thornhill

**Exhibitions 1999**

**RUSSIA**

**ITE Group Plc**

**MOSCOW**

EXPO-ELECTRONICA Electronic Components & Production Equipment 20-22 Apr

TRANSRUSSIA/TRANSOFT Transport, Logistics, Infrastructure (+Conference) 20-23 Apr

WIPS Protection, Security & Fire Safety 20-23 Apr

MOBIE Oil & Gas (+Conference) 21-24 June

AUTOSALON Motor Show 23-29 Aug

EDUPHOTEL Hotel, Restaurant Equipment, Food & Wine 31 Aug-3 Sept

MOSCOCOL Frozen Foods & Convenience Foods 31 Aug-3 Sept

INTERPOLITEX Police Equipment, Civil Defence, Traffic Control 9-12 Nov

DRINKS/INGREDIENTS Drinks, Production, Technology, Ingredients 23-26 Nov

METALXPO Metallurgy, Metalworking, Tubes & Pipes 23-26 Nov

PHARMINDUSTRIA Pharmaceutical Production 24-26 Nov

HEALTHCARE Consumer Travel 25-28 Nov

ZINOVIL/INFORMATICS Healthcare 30 Nov-4 Dec

**ST PETERSBURG**

INTERFOOD/FOODPACK Food & Beverages, Processing & Packaging 27-30 Apr

INTERDRINK/INGREDIENTS Drinks, Food Ingredients & Flavours 27-30 Apr

FISHPROVEXPO Food Processing 27-30 Apr

N.I.C.E./IDEAL BEAUTY Cosmetics, Perfumery & Salon Equipment 19-20 May

STOMATOLOGY Dental 23-25 June

HOSPITAL/PHARMATSIVA Healthcare, Pharmaceutical Production 13-16 Sept

OPTIC EXPO Optical 13-16 Sept

BOS/OFFEX Banking Equipment, Office Technology, Security 26 Sept-1 Oct

OIS SPORTEXPO Sports & Leisure 27-29 Oct

BATIMAT ST PETERSBURG Building, Construction, Interiors, Heating, Ventilation 27-30 Oct

INTERIORS ST PETERSBURG Interior Design, Furnishings & Finishes 27-30 Oct

**NIZHNY NOVGOROD**

HEALTHCARE Healthcare 26-29 Apr

VOLGABUILD-INTERIORS Building, Construction, Interiors 11-14 May

**SAMARA**

SAMARA TOURISM & SPORT Travel, Tourism & Leisure 14-17 Apr

SAMARA BUILDING (Autumn) Building & Construction 28 Sept-1 Oct

SAMARA EXPOED Healthcare 12-15 Oct

FOR FURTHER INFORMATION PLEASE CONTACT:

ITE Group Plc  
Byron House, 102 Shiloh Road,  
London W18 2SQ, UK  
Tel: +44 (0) 171 285 9720  
Fax: +44 (0) 171 285 0177  
E-mail: press@ite-exhibitions.com  
Web Site: www.ite-exhibitions.com

U.S.A. Moscow  
Delgunkovskaya St 15, Building 8,  
Moscow 125006, Russia  
Tel: (+7 055) 525 7360  
Fax: (+7 055) 935 7351  
E-mail: main@i3.com  
E-mail: info@i3.com



THE MEDIA by Andrew Jack

## Pressures mount on journalists

As parliamentary and presidential elections loom, there has been a growing climate of hostility to the media

Shooting the messenger has taken on unpleasantly literal form in Russia in recent years. Since the start of 1998 alone, 15 journalists have been killed in suspicious circumstances and many others have been beaten up and threatened in the course of their work.

Violence has been backed up by the pressure of the courts, with a number of writers put on trial for espionage and violation of military secrets. By contrast, the legal system has proved to be less effective in bringing to justice those who have murdered or injured journalists.

Meanwhile, as both parliamentary and presidential elections loom in the coming months, there has been a growing climate of hostility to the media, notably from the Communist party. Legislators even passed a law designed to create a council with the power to censor television programmes judged morally unacceptable, although it was subsequently vetoed by President Yeltsin.

But other, less violent, pressures on Russia's media have proved still more powerful and detrimental over the past few years - forces that undermine its credibility and independence. Watch a news programme on television, listen to a bulletin on a radio station, or read an article in a magazine or newspaper, and two questions always crop up - who owns the publication and why is it providing this information?

While there is a huge

quantity of newspaper and air-time available to offer the broadest variety of opinion, few Russians consume it without a strong degree of scepticism. "I only read the sports papers," says Valery, a university teacher. "At least they are accurate."

Powerful political and business interests control most of the principal outlets. That goes for the state-owned television channel RTT, for example, which is seen as closely linked to the administration of President Boris Yeltsin. There is the broadcaster TV Tsentr, which is closely linked to Yuri Luzhkov, the mayor of Moscow. Or their rival ORT, scene of a battle for control between the government of Yevgeny Primakov and the self-styled "oligarch" Boris Berezovsky, a minority shareholder.

Mr Primakov appointed his own trusted confidants to senior positions in RTT, the state-owned news agency.

Mr Berezovsky, meanwhile, is widely believed to have influence over the newspapers Novye Investitsii and Nezavisimaya Gazeta, and the magazine Ogonyok. Vladimir Potanin, the power behind the Uneximbank empire, made no secret of his desire for wielding political influence when he acquired Investiya. His group also controls Expert magazine. Vladimir Gusinsky, of the Most media group controls the newspaper Segodnya, the magazine Itogi and the Echo Moskvy radio station, for instance, as well as the broadcaster NTV.

Peter Coalson, head of the business development service at the National Press Institute in St Petersburg, says that "very little has been achieved" in the fight for a free press in Russia. He argues that local government across the country directly funds publications, distorting competition and making rivals struggle to survive. "The whole environment is so state-dominated that it is impossible for any independent voice to rise," he says.

The prospects for financial self-sufficiency, which might help provide independence from sponsors and advertisers, suffered a considerable setback with last August's financial crisis. Some publications - such as the Rossiiskii Telegraf - closed, and others that were near to being launched were cancelled, including a Russian-language edition of Paris Match.

But some observers argue that the blame for the current situation lies to a large degree with journalists themselves. Alex Fankin, the editor of Sreda, a monthly magazine about the media, points to the widespread practice since the mid-1990s of *sakazhka* or articles that have been written to order. Individual journalists or entire editorial teams are paid to write stories with a particular slant. One powerful Moscow-based businessman boasts: "I dictate half of what you read in the press."

Over time, and notably since the build-up to the election campaign of Pres-

ident Yeltsin in 1996, companies began openly investing in the media - which, in turn, became largely hostile to the Communists and other rival candidates. "The press decided that it could put aside part of its freedom and get it back with interest," says Alex Simonov, head of the Glasnost Defence Foundation, which monitors media independence. "But freedom never grows in the bank."

His organisation was set up in 1991 to protest about the coverage in the state-controlled media of the uprising in the Baltic republics. But, significantly, he says it was film directors such as himself who created the organisation and withdrew their own films to raise attention. Journalists only joined later. He argues bluntly: "There are two great foes at present - power and the press itself. Our press is violating the laws just as much as their rights are being violated."

Mr Simonov says that "the market is not big enough for the quantity", and that the explosion in publications has been "not just because of readers' needs but because of deputy editors thinking they could do the job of their editor even better and starting their own titles". While too many publications chase too few readers, the chance for any to be self-sufficient and more independent is jeopardised.

For Mr Fankin, the best period for Russian journalism was in the final days of the Soviet Union, when writers were still paid by the state to be critical of the system. "It was perfect. The Communists were paying to commit suicide," he says.

Mr Simonov adds that "the best Russian journalists always considered themselves writers. They include lots of personal opinions that have nothing to do with information."

TOURISM by Paul Gould

## Negative image hinders growth in visitors

The 1998 economic crisis has compounded the tourism problem

Russia is one of the most fascinating destinations on earth. Rarely absent from the headlines, it inspires curiosity and still looms large in our consciousness as a source of intrigue and cold war paranoia.

More positively, the country that gave the world *War and Peace*, *Snow White* and the Bolshoi ballet is recognised as a heavyweight in the world of the arts. The cultural and architectural attractions of Moscow and St Petersburg are arguably a match for Paris or Rome.

Russia has become a more open society, to an extent unimaginable when Mikhail Gorbachev launched *perestroika* in 1985. As part of its muddled rush into free enterprise, Russia has embraced e-mail and satellite TV, and opened scores of bars, restaurants and hotels. The facilities visitors can now enjoy means there is no reason to fear deprivation.

Yet, an unremittingly negative image persists - one of strife, obstructive bureaucracy, harsh winters and a language barrier. Some of these perceptions are unfair. Nevertheless, they appear to be holding Russia back from fulfilling the tourism potential suggested by its profile - and more surprisingly by its recent growth figures.

The economic crisis of August 1998 has compounded the image problem. Western airlines flying to Russia reported marked drops in sales in the immediate wake of the crisis. By October 1998, employment in tourism shrunk by 25 per cent, according to the Russian Association of Travel Agents, and about one-third of smaller operators were forced out of business.

But David Hammond,

director of London-based ITE, which organised the March 1999 Moscow International Travel and Tourism fair, is not pessimistic. He says the fall in jobs and in the number of Russian travel companies largely reflects "strategic alliances and consolidation" in the sector.

Mr Hammond believes Russia is on course for sustained growth in tourism, an assertion backed by figures from the World Tourism Organisation (WTO).

In 1998, tourism arrivals in Russia reached 15.7m, up 3 per cent from 15.3m in 1997. Tourism revenue also grew by 3 per cent from \$6.9bn in 1997 to \$7.1bn in 1998. The highest number of arrivals was from Finland, with 1.5m.

But, says Mr Hammond, this growth was less than that hoped for. During 1998, Russia enjoyed something of a surge in tourism - arrivals jumped to 14.6m from 9.2m in 1995, and revenue reached \$6.86bn from \$4.3bn in 1995 - increases of 57 per cent and 59 per cent respectively. This suggested Russia's tourist market was one of the fastest growing in Europe.

Arrivals growth then stalled at 5.3 per cent in 1997 and slipped to 3 per cent in 1998.

In 1998, Russia also moved up to 13th place from 18th in the WTO's league of world destinations, and to 16th place from 23rd in terms of tourism revenue. By comparison, league leader France saw 70m arrivals in 1998 and revenue of about \$29bn.

Marina Shantkina, editor-in-chief of TITG Russia magazine, says it is too soon to judge if the economic crisis will have a lasting effect on the number of tourists travelling to Russia. The summer season of 1999 will provide a clearer yardstick, she says.



Bolshoi performers on Kremlin Cathedral square, Moscow

mer season of 1999 will provide a clearer yardstick, she says.

However, tourists can now take advantage of falling prices. Dollars buy even more rubles, and the drop in business travellers means airlines are keen to fill aircraft.

But there are few reasonable places in which to stay. Many of the cheaper hotels were meant only for locals - a vestige of Soviet-era segregation - and do not offer overseas bookings or service in any language other than Russian.

With the middle-class entrepreneur hard hit by the economic crisis, investment in middle-ranking hotels is looking to be inadequate.

This leaves Russia's tourism potential underexploited, and crying out for central co-ordination. Until the early 1990s all overseas tourism was handled by Intourist, the then state monopoly that is now a privatised company. It remains the biggest operator.

Sergey Shanguin, Intourist's head of marketing, is confident about Russia's attractions - its history, its ballet, its architecture and its great art museums such as the Hermitage and Tretyakov. Intourist therefore aims to target the educated, professional classes, he says.

Even here, Mr Shanguin says he is up against Russia's image problem. He would like to see state financing for the promotion of what he views as a vital export. But with the Russian government unable even to pay public sector salaries, the massive cash boost he seeks is unlikely to be forthcoming.

Furthermore a law passed in 1997 mandates that overseas investment in Russian travel companies is limited to 49 per cent, restricting prospects for a much-needed capital injection.

POVERTY by Andrew Jack

## Bleak future for the poor

Since the collapse of the Soviet Union, there has been a jump in absolute poverty

In a country with such long traditions of statistical manipulation and hostility to the inquiries of the state, it is not easy to pin down the true extent of poverty in Russia. But there is little doubt that the picture is looking increasingly bleak.

United Nations figures suggest that the purchasing power of average income in the USSR in 1987 was about \$6,000 or 32 per cent of the level of the US. By 1996, it was just \$4,531 in adjusted terms, or 17 per cent of the US level. Since the collapse of the Soviet Union, there has been both growing inequality and a jump in absolute poverty.

According to a new analysis by the World Bank, the August 1998 financial crisis in Russia will reach its greatest impact by early 2000. By that time up to 20 per cent of the country may be living in conditions of extreme poverty - defined as less than half the minimum subsistence income, currently some Rb680 a month. That is up from 11 per cent in 1994.

Faced with such bleak figures, some observers argue that the figures are simply false. There is little doubt that data collection is plagued with difficulties, and there are fierce debates about methodology. There are problems which exaggerate, and others which artificially underplay, the true state of Russia's population.

But as Tatiana Khokhlova of the Russian European Centre for Economic Policy in Moscow argues: "It is very difficult to talk about the absolute level of poverty, but you can analyse the trends." And those trends are distinctly pessimistic.

Government figures often show what citizens are entitled to receive rather than what they do receive. In 1997, just 20 per cent of income that Russians were entitled to under federal laws was actually paid. Since then, arrears on the payment of wages and social benefits have increased sharply. Pensions are on average paid with a delay of one month at present, and wages are 2.5 months behind.

Equally, there is little doubt that Russians conceal the true extent of their income from official surveys as part of a broader strategy

of tax avoidance. A recent World Bank study found that most people admitted to spending twice what they claimed to earn. Other research suggested that undeclared "informal" income had rocketed in the past few years to an average of 42 per cent of total household earnings.

A traditional argument is that Russians have evolved a wide variety of successful "survival strategies" in response to the apparently bleak situation shown in the statistics. Many basic expenditures remain extremely low, with rents, utility bills, health and transport heavily subsidised, for example.

Families spend their savings, borrow from their extended families, and earn cash from informal second jobs. Many also have access to plots of land or *dachas* (country cottages) with gardens, where they can grow some of their own food. It seems clear that - at least in the short term - such forms of support do help to sustain a significant proportion of the population, notably those more vocal groups which might otherwise trigger social and political unrest.

But for the poorest Russians, the prospects are far bleaker. Asked about their survival strategies, Simon Clarke, a sociology professor at Warwick University, puts it bluntly: "Both words are misnomers." His research indicates that the poorest have neither access to land nor many opportunities for second jobs.

That ties in with the World Bank's findings. Michal Rutkowski, sector leader of the social protection department, says that - with the exception of elderly women living alone - pensioners are not one of the most exposed groups. It is families with children, living in small urban settlements with access to neither jobs nor land, who suffer most.

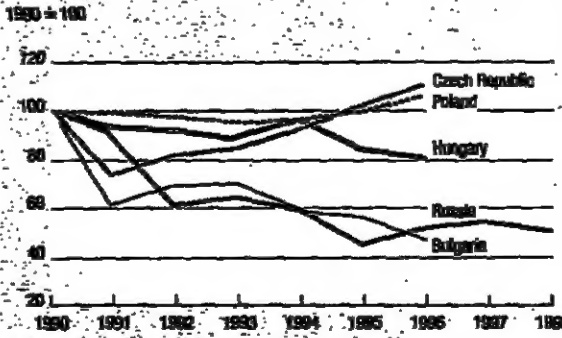
He argues that Russia's social programmes need to be more tightly targeted to help those who are most at risk. At present, some 1,100 categories of Russians are eligible for benefits of one kind or another - covering more than 60 per cent of the total population. With so little money available, the little money available, the poorest get very little. But there is strong political resistance

UN human poverty profile

	1990-94	1990	1995	1990	1995
Population below income poverty line (%)	Pop below income poverty line (%)	Pop below income poverty line (%)	Pop below income poverty line (%)	Pop below income poverty line (%)	Pop below income poverty line (%)
US	19	3	13	12	8
Japan	12	5	8	16	4
Germany	6	12	11	22	5
Poland	6	1	11	11	4
Czech Republic	-	1	14	15	9
Slovakia	-	1	19	-	10
Hungary	10	2	24	30	11
Poland	12	13	20	19	12
Bulgaria	-	33	18	27	16
Russia	22	38	32	75	30
Sweden	-	22	21	130	21
Belarus	-	23	24	37	14
Kazakhstan	-	30	26	80	36
Ukraine	-	41	24	90	18
All dev. countries	-	-	27	498	65
Industrial countries	-	-	18	38	12
World	-	-	25	130	69
E. Europe and CIS	-	-	28	62	28

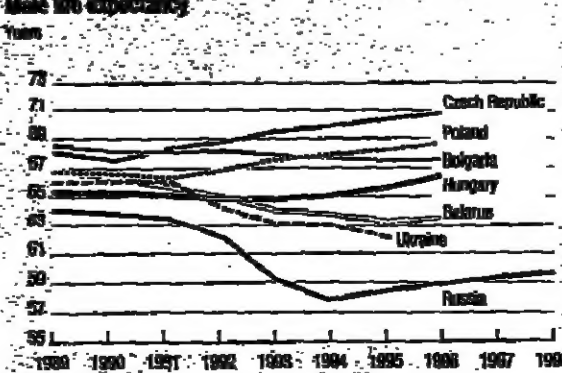
Source: Russian Economic Trends - 2000 and 2001 (2000) = \$14.40 a day (1995 PPP)

Real wages



Source: Russian Economic Trends - 2000 and 2001 (2000) = \$14.40 a day (1995 PPP)

Male life expectancy



Source: Russian Economic Trends - 2000 and 2001 (2000) = \$14.40 a day (1995 PPP)

Change to change

The World Bank also argues that any efforts to help the poorest need to begin with a fundamental restructuring of the Russian economy, introducing bankruptcy procedures, fostering private sector initiatives and making the country more competitive.

Sergei Kalashnikov, the minister of labour and social affairs from the ultra-nationalist National Liberal Democratic Party, agrees that better action on bankruptcies is needed. Commenting on the low wages and considerable arrears on public sector salaries, he adds that "the federal government should fulfil its obligations".

But while the promises and policy recommendations continue, there are some Russian statistics that are less open to manipulation, and which carry a very bleak message indeed. Male life expectancy has dropped sharply over the past few years to a little over 58 today. Alcoholism and drug abuse have risen, and there has been a sharp rise in suicides and divorces. For many of those most at risk in the post-Soviet years, it is already too late.

EDUCATION by Andrew Jack

## Lessons in how to survive

Although there is greater intellectual freedom, teachers are finding that resources have not kept pace with new-found educational liberty

The pupils form a neat square around Tamara Yurishcheva in the school gymnasium, and listen respectfully as she praises the half a dozen who scored the top mark of five in all their subjects over the past few weeks.

The prize-winners - all but one a girl - step forward to applause, and she hands each of them a bar of chocolate as a reward. "We used to give out books or good pens," confides Tatiana Vinokurova, an English teacher. "But we can't afford that any more."

At Middle School Number 3 in Tula, a provincial town 200km south of Moscow, the main question over the past few years has been one of survival - for teachers and their institution as much as for students and their parents.

At first glance, the school appears to resemble its counterparts in countries around the world. There are long corridors and classrooms, cloakrooms and a canteen. It is perhaps a bit more tatty and the equipment a little less up to date, but class sizes are the same as elsewhere, the 1,000-odd students appear lively, and the teachers motivated.

Yet, the infrastructure is largely a legacy of the Soviet period, propped up by an increasing dose of improvisation and desperation during the 1990s. The Russian government today does little to help. "There's not even money for bleach for the toilets," says Ms Vinokurova. "The school does have a few computers, and even has access to the Internet. But its ability to use the network

is limited because it has no money for paper to print out information. There are some relatively new desks and chairs in the classrooms. But most have been contributed by the richer parents. "We ask them to pay this or that bill," says Ms Yurishcheva.

The post-Soviet period has provided much greater intellectual freedom. "We are between the old and the new traditions," says Vladimir Fedosov, a history teacher. "In my subject, too much space is still devoted to general secretaries of the Communist party such as Chernenko. But we have books for representing different viewpoints. Before, the work

sitting on the city council. She complains about the continued political interference by the Communist-dominated city and region, and fears that if the far left wins in December's general elections, she will lose her job.

"Probably Yeltsin's greatest mistake was not to have passed a law forbidding party leaders to maintain top positions," she says.

She points to a thick file of demands by school inspectors, and complains at their dogmatic approach. She wanted to offer computer skills in place of the traditional wood and metal-working classes offered to boys in their "labour training" class.

Junior staff receive as little as Rb200 a month in salary, and the most senior grade receives just Rb500. The wages have not increased for five years - and notably not since the financial crisis last August, which cut the ruble to a quarter of its previous value. And wage arrears are currently running at two months'.

There was a moment in the early 1990s when I considered giving up teaching," says Mr Fedosov. "I had no idea what to do any more and how to teach. There were so many contradictions. But it's very difficult to find a good job at 40. And my great love is teaching." He adds that with his salary now so low, his wife has become the principal breadwinner.

"We've had democracy for too short a period to be sure that everything will be OK," says Ms Vinokurova. Ms Yurishcheva adds: "Financially we are far worse off. It all weighs a lot on our health. But we have greater intellectual freedom. I prefer the situation today."

With the economic situa-



FAQ: WHEN AND WHERE TO ENTER EMERGING EUROPEAN CAPITAL MARKETS?

WHAT ABOUT RIGHT NOW AT **WWW.SKATE.ru**

Make your choice of Central European, Baltic, Turkish or Russian/CIS investments through Emerging Europe's most reputable English-language financial information site. Published by Skate Inc, the quality financial benchmarks provider for emerging markets since 1992.



MOSCOW by Andrew Balls and John Thornhill

# Curious hybrid of west and east

Mayor Yuri Luzhkov aspires to establish Moscow as a European city, playing up its rich cultural traditions

Russian politicians have traditionally been divided between westernisers and Slavophiles, between those who want to integrate their country with the rest of Europe and those who want to pursue a uniquely national path.

But, according to one political observer, Yuri Luzhkov, Moscow's rumbustious mayor, is that most rare phenomenon: a nationalist westerniser. Of Russia's leaders, perhaps only the 18th century tsar, Peter the Great, who aggressively expanded the Imperial empire while founding St Petersburg as Russia's "window on the west", could be similarly labelled.

In Moscow, Mr Luzhkov has created a curious hybrid of west and east, which, nonetheless, has immense popular appeal. In 1996, Mr Luzhkov was re-elected mayor with 90 per cent of the vote, establishing him as one of Russia's strongest regional leaders and a promising presidential contender.

In spite of his repeated denials that he has any designs on the Kremlin, Mr Luzhkov clearly aspires to establish Moscow as a European city, playing up its rich cultural traditions and vibrant commercial history while touring western capitals to attract foreign investment. But Mr Luzhkov also celebrates Moscow's unique history as the "Third Rome", the heart of the Russian nation and the soul of the Orthodox faith.

On some occasions, Mr Luzhkov can sound the model of liberal democracy and international respectability. On others, he can strike a worryingly demagogic tone, condemning Ukraine's occupation of Crimea and Latvia's treatment of its minority Russian population. Human rights groups complain about Mr Luzhkov's rough-handed treat-



Winter scene: heavy snowfall in Red Square, Moscow

ment of Moscow's own minority groups.

In spite of Russia's financial crisis, Moscow still impresses the visitor with the buzz of its commercial activity, its well-stocked shops, and its vast building projects. The critical question is whether the "Moscow miracle" can last long enough to help catapult Mr Luzhkov into the Kremlin.

Some economists argue that Moscow's success has largely been built on the country's economic failure and cannot last indefinitely. Russia's resources have been sucked out of the regions and concentrated in the capital turning Moscow into one "vast off-shore zone".

The financial crisis is now hitting the city harder than many other regions, given Moscow's dependence on financial services and retail trade. Before the crisis 80 per cent of Russian banking activity was conducted in Moscow. Now little more remains of the banking sector than an empty shell. The flood of foreign capital into

the city has evaporated. The shrinkage of tax revenue (in US dollar terms) will force Moscow to restructure its foreign debts if it is to avoid a default. Moscow's opaque and incestuous variant of capitalism will leave it ill-equipped to face a modern, and increasingly competitive world.

Alexei Ulyukav, deputy director of the Institute for the Economy in Transition, says Mr Luzhkov cannot possibly replicate Moscow's success on a national scale. "He can't do it. The Moscow government has been getting Rb128bn every year from big companies that have their headquarters in the capital," he says. "If he becomes president, where is all the extra money going to come from?"

But Sergei Yastrzhembsky, the silver-tongued former presidential press spokesman who is now a deputy chairman of the Moscow city government, rejects such criticisms presenting a forceful defence of his master's achievements.

Mr Yastrzhembsky admits Moscow has many objective advantages as the centre of the country's government, science, transport, and finance. But he attacks the various "myths" that have grown up around Moscow's welfare as resulting from the deliberate disinformation of Mr Luzhkov's jealous rivals, the city's lingering reputation as the shop window of Communism, and sheer ignorance.

He argues there are many reasons for Moscow's success and these stem from the administrative talents of Mr Luzhkov and his team. "It is absolutely clear that Luzhkov created an economic model from his personal experience," he says. "But this experience is not only applicable to Moscow. It is experience that can be used on a national scale - although other regions have their specific factors which must be taken into account."

First, Mr Yastrzhembsky argues, Moscow appreciated the importance of developing small- and medium-sized

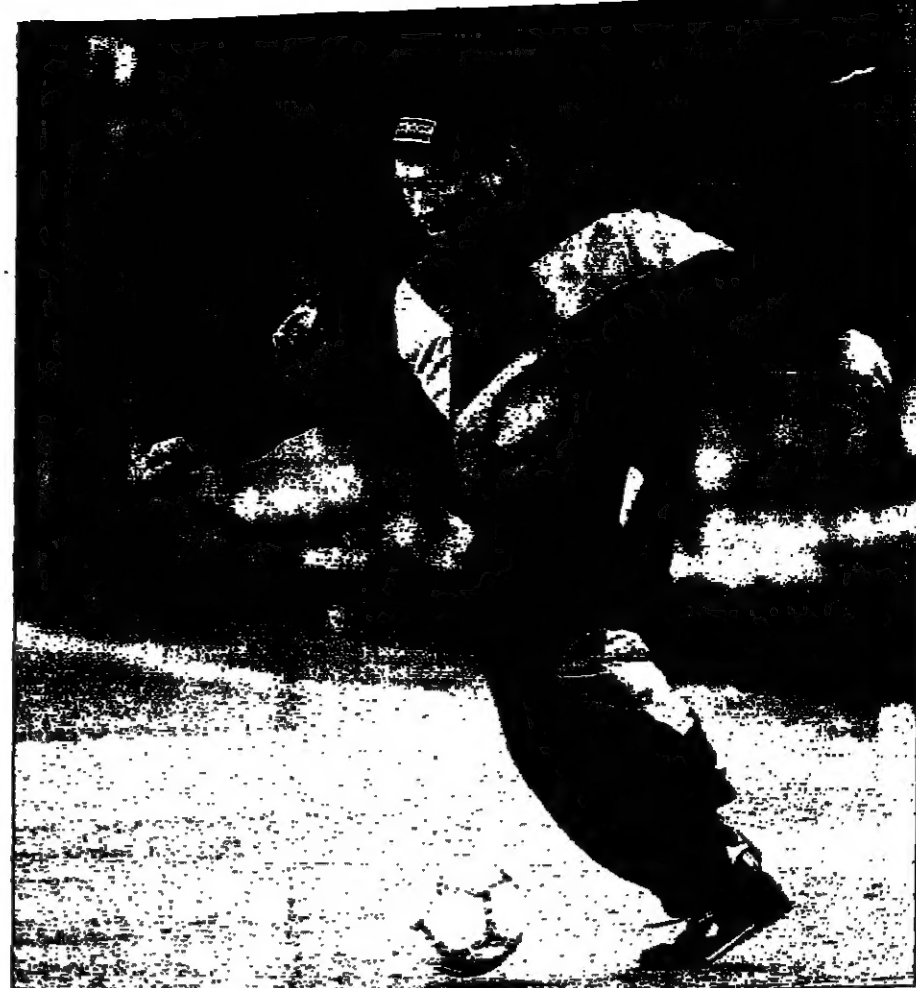
businesses, which would create economic growth, jobs, and taxes. "Luzhkov created the conditions for the development of entrepreneurship. There are more than 200,000 small- and medium-sized businesses, one third of all those in Russia, providing between 30 per cent and 60 per cent of the Moscow budget," he says.

Second, Moscow privatised its municipal assets in a very different way from the rest of the country selling individual companies on a case-by-case basis rather than in a mass give-away. "Moscow did not sell assets for symbolic prices. The enormous property owned by Moscow is gradually being sold by tenders for real prices, providing 15 per cent to 16 per cent of the city budget every year," he says.

But Mr Yastrzhembsky accepts the financial crisis is having a severe effect on Moscow curbing economic growth, undermining the city's credit rating, boosting unemployment, and scuppering several prestige building projects, such as the development of a Moscow Disneyland. However, he argues that Moscow has a plumper economic "cushion" softening social distress.

The next few months will prove vital for Moscow's fragile economy and Mr Luzhkov's chances of attaining higher office. Even though Mr Yastrzhembsky reiterates that Mr Luzhkov is not a presidential candidate, he does suggest Moscow's mayor is capable of playing a greater national role, accepting the description of him as a patriotic westerniser.

"Luzhkov does not hide the fact that Europe is the natural ally of Russia, a natural partner," Mr Yastrzhembsky says. "He is a patriot who believes in Russian traditions based in western values."



Yuri Luzhkov: Moscow's mayor is a promising presidential contender

BANKING by John Thornhill

## Crackdown looms on troubled sector

The government's devaluation of the rouble and its default on domestic debts last year dealt banks a devastating blow

In a recent speech to a finance conference, Yevgeny Primakov, prime minister, finally promised to crack down on Russia's "banking bums".

The central bank would withdraw licences from troubled banks, he said, encourage mergers between weak financial institutions, and open up the market to foreign competitors. "Most important in the short term is to clean the banking sector of banking invalids, of half-dead banks, of the banking bums," he said.

Mr Primakov's speech was welcomed by Russia's bankers, foreign creditors, and the International Monetary Fund, who have all been pressing the government to take decisive action to tackle the country's crisis-ridden banking sector. The only lingering question was why it had taken Mr Primakov's government more than six months to reach the same conclusion.

Russia's banking sector was dealt a devastating blow on August 17 last year when the government was forced to devalue the rouble and default on its domestic debts. The government's decisions rendered scores of Russia's 1,474 banks insolvent overnight as panicking depositors rushed to withdraw their savings.

Many of Russia's biggest

banks, which held a large proportion of their assets in government Treasury bills, known as GKO, had their assets wiped out following the debt default. Moreover, several of these banks had signed an estimated \$6bn of forward dollar contracts, leaving them with a potentially massive exposure to the plunging rouble.

The more progressive Russian banks had also taken on large dollar-denominated syndicated loans and bonds, which suddenly became far more costly to service. A recent World Bank study estimated that 15 of Russia's 18 biggest banks remain insolvent.

The government attempted to buy the banks time to sort out this mess and reach agreement with their creditors by imposing a 90-day moratorium on the repayment of all commercial foreign debts. Instead, many bankers used the breathing space to transfer the remaining assets out of their banks into parallel structures leaving the liabilities to their depositors and creditors. This may have helped preserve a skeleton banking system but it has raised alarming questions about the integrity of the legal regime and destroyed the credibility of many of Russia's remaining banks.

Vladimir Potanin, head of Uneximbank, which was one of Russia's most powerful financial institutions before the crisis, argues that his bank had to find a way to continue servicing its clients without running the risk that their assets would be frozen by creditors. In Uneximbank's case, the bank transferred some of its accounts to the newly-created Rosbank, which is also in merger talks with Menatep and Most banks.

Mr Potanin says Uneximbank, which recently defaulted on its eurobonds, is currently being audited by KPMG to determine its outstanding assets and liabilities. On that basis, Uneximbank can then conclude debt restructuring talks with all its creditors.

"We were very disappointed that we were in a position not to fulfil our obligations in time," Mr Potanin says. "The only thing we have left is our reputation and we would not like to spoil it completely."

Uneximbank's creditors are anxiously watching how this process unfolds knowing that a lot depends on the goodwill of the bank's management. But it is clear that many other banks have been a lot less scrupulous than Uneximbank in observing their obligations.

Bank creditors have been

discovering to their cost that Russia's legislation was simply not designed to address large bank failures. Until recently, there were no bankruptcy proceedings applicable to financial credit organisations.

A partner from a leading Moscow law firm points to the example of Inkombank, one of Russia's biggest banks which collapsed in the wake of August's financial crisis and had its licence withdrawn in October.

"There are 9,000 corporate creditors and 250,000 private depositors and the whole legal procedure is not set up to deal with such large bankruptcies," he says. "The bad news is that it is still a terrible mess and you still do not know what is going on."

Until the Russian banking industry is able to establish an effective deposit insurance scheme it will attract few retail savings. It will also be cut off from most sources of foreign borrowing until a workable legal regime can be created to protect creditor rights. That suggests the Russian economy will only grow anaemically in future. There will be no means of financial intermediation to turn short-term deposits into long-term industrial loans.

Enrico Perotti, professor of international finance at Amsterdam University and adviser to the Russian central bank, says the most important challenge is to establish fair and transparent rules of the game.

"Banking assets in Russia are only about 5 per cent of gross domestic product. Not only is that a pathetically small figure but a lot of those assets are still frozen," he says. "I think the first thing is to reconstruct the base of the pyramid and restore confidence in the banking system."

The Russian central bank has set up an Agency for Restructuring Credit Organisations (Arco) with help from the World Bank. But the agency has hardly begun to tackle the industry's many problems. Most big foreign banks, which would appear to be the only financial institutions trusted by the Russian population, have been badly burned by the financial crisis and appear reluctant to expand.

Mr Perotti says: "Until the ground is cleared and a lot of the rotting banks disappear then I do not think there is going to be much interest in Russia from foreign banks."

"But this is a country which is terribly disintermediated and if it finds its way then there will be a right moment to come back."



Minimir Shaimiev: an important new political victory



A market in Kama, capital city of the autonomous republic of Tatarstan

TATARSTAN by Andrew Jack

## A model republic

Tatarstan has achieved considerable independence from Moscow

Sitting in his trophy-lined office, Simon Yakubov, the head of the Kama truck racing team, has a snappy answer when asked whether it is the vehicles or the drivers which explain his company's many sporting successes. "A team without a truck can only run 200 metres. A truck without a team is just a heap of metal."

But for most of his colleagues in the vast 100 sq km Kama industrial complex around him in the factory town of Naberezhnye Chelny, participation in the global economy has proved rather more difficult. The 40,000-strong workforce is looking decidedly flabby, and the trucks well past their best.

Kama symbolises many of the problems of post-Soviet Russia, and the specific challenges facing the autonomous republic of Tatarstan, 1,000 kilometres to the east of Moscow on the Volga river, which has taken a distinctive approach to the difficult transition of the past few years.

Minimir Shaimiev, the president, looks content and confident in his office in the Kremlin of Kazan, the capital city. In March, he scored an important new political victory which underlined the path he has forged during the 1990s of considerable independence from the government in Moscow. But the consequence has also been to give him an unusually important responsibility in coping with the economic slump.

Mr Shaimiev created a political crisis when he refused to sign a treaty in 1992 with the newly-created Russian Federation. "We said we must find a new way of constructing the federation," he says. "The division of powers should be by mutual delegation. But the treaty had been dictated by the will of the centre."

He managed to steer through the obstacles and negotiate better terms, agreeing a treaty with Moscow in 1994 granting Tatarstan considerable autonomy. It has since proved a model for other members of the Russian Federation. It was an outcome in sharp contrast to the only other region not to sign in 1992: that of Chechnya, site of a bloody war and the political stalemate that remains today.

While many argue that the situation in Tatarstan was never likely to escalate in the same way as in Chechnya, Mr Shaimiev maintains that the stakes were just as high. "The situation was very complex in 1991-92. Extremist nationalist forces gained the upper hand and called for separation. My name means 'made of iron' but I was called a coward. I warned that if you pronounced the word independence, you would have to accomplish it. I said we had to think about the consequences and we should conclude a treaty."

Now Mr Shaimiev has managed to renew for a further five years the 13 detailed agreements govern-

ing relations between Tatarstan and the Russian Federation - on matters including revenue-sharing. It is a notable achievement at a time when Yevgeny Primakov, the prime minister, has indicated his preference for a recentralisation of power by directly appointing regional governors instead of electing them.

"Tatarstan is a donor republic. It gives much more than it receives," says Mr Shaimiev. "If Russia did not prolong the treaty, our parliament would have refused to contribute to the central budget. I would not have liked to approve this scenario. The Tatars are the second largest group in Russia. We don't like to say it, but we know it - and so does Moscow."

Mr Shaimiev's firm rule has been characterised by another trait: what he dubs the "soft entry" into the market, with Tatarstan maintaining much of its property in state control. "We are a country that had many monopolies," he says. "I believe change should be done gradually."

It was a policy that helped it to avoid some of the worst excesses of post-Soviet privatisation, in which control was rapidly assumed by managers or outside investors, with employee-shareholders pushed to one side and money siphoned off.

Most notably, Tatarstan maintained control over the considerable wealth of Tatneft, the regional oil monopoly, which has bankrolled the state's finances. Last

year, the government even dropped up its own budget by on-borrowing \$300m from the company - which had negotiated more favourable credit terms than the government itself.

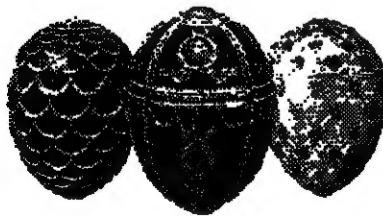
But with the sharp drop in oil prices in recent months, an important source of income is drying up. And state control or influence over many other enterprises in the past few years has limited the degree of restructuring that has taken place, making the transition today even more tough.

Kazan, for instance, has been open to minority foreign investment since the middle of the 1990s, but has consistently failed to undertake sufficient adjustment to make it profitable. It is now desperately seeking new joint venture partners and a renegotiation of its debts.

Mr Shaimiev, who describes himself politically as a "centrist", says that at a time when Russia is strengthening the involvement of the state - partly as a backlash to the excesses of self-offs in the past few years - Tatarstan is going in the opposite direction.

But it is beginning to consider launching a new range of privatisations - such as that of the energy monopoly Tatenergo - just when domestic interest is low and foreign investors have been scared away in the wake of last August's crisis. Tatarstan has long performed well compared to other parts of the Russian Federation, but its victory is far from assured.

Now the hardest thing about staying at a Moscow Marriott is choosing which one.



Moscow Marriott  
Grand Hotel  
7095-915-8500

Moscow Marriott  
Royal Hotel  
7095-937-1000

Moscow Marriott  
Tverskaya Hotel  
7095-258-3000

It's the Marriott Hotels of Moscow - three exquisite hotels including the luxurious Marriott Royal, the elegant Marriott Grand and the intimate Marriott Tverskaya. Come experience every contemporary convenience, including fine restaurants, full service health clubs and friendly associates who deliver nothing short of perfection. Spacious suites, modern meeting rooms and convenient locations in the heart of Moscow make these fine hotels perfect for both leisure and business. Whatever your needs, trust the Marriott Hotels of Moscow to accommodate them in a world of comfort.

When you're comfortable you can do anything.™

**Marriott**  
HOTELS OF MOSCOW

Call Toll-Free: Marriott Hotels, Resorts & Suites • 800-228-9290  
UK • 0800 221222 • Germany • 0130 854422 • Italy • 1678 76022  
France • 0800 908333 • Holland • 0800 022 0122  
Spain 900 99 4422 • Switzerland • 0800 550122

Roosevelt Egg and Coronation Egg provided by The FOMBS Magazine Collection.  
New York © All rights reserved

**This window open.**

Banking & Finance Appointments in the FT.

For more information on advertising opportunities, please call:  
Tel: +44 171 873 4153 Fax: +44 171 873 4331

سكايو الامل



JAPAN by Gillian Tett in Tokyo

## Moody's delivers some cheer

The rescue of the Japanese banking system has finally begun in earnest and the outlook is 'stable'

During the past year, the word "Moody's" has provoked unease in Japan's banking world. For, as Japan has teetered on the edge of a financial crisis, the country has suffered the humiliation of watching rating agencies such as Moody's repeatedly downgrading the large Japanese banks.

This month, however, the rating agency has suddenly delivered the banking sector a spot of cheer. On April 21, Moody's announced that it finally considered the outlook for Japan's banks to be "stable", following the decision by the government to create a ¥60,000bn banking reform package last autumn.

"The rescue of the Japanese banking system has finally begun in earnest. It appears coherent and a full-blown banking crisis has been averted," Christopher Mahoney, Moody's managing director for sovereigns and banks, said.

Cynics might argue that this statement simply reflects what the markets have already decided. The share price of the banking sector, for example, has recently surged, and the Japan premium – the extra price which Japanese banks need to pay to raise dollars in international markets compared to their US and European counterparts – has plunged.

But the crucial question now, as Japan embarks on a new financial year, is whether this cheer is justified. During the past year Japanese banks have slashed lending to Asia, particularly to non-Japanese borrowers, in a desperate attempt to boost their capital adequacy ratios. They have also trimmed their domestic loans sharply: the bank net lending balance has shown annual declines of around 4 per cent in recent months. And if this trend continues, it will continue to act as a

broader dampener on regional economic growth, however high the banking shares actually rally.

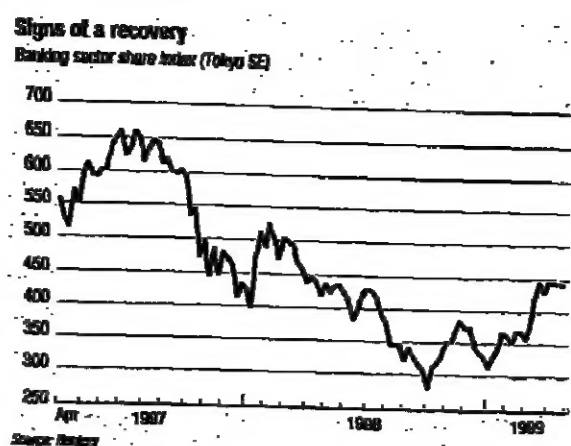
As one western banker with extensive exposure to Asia says: "The Japanese banks have rushed to cut their loans in Asia. What we are all wondering now is whether they are coming back in a meaningful way."

In the short term, the answer would appear to be "no". For thus far the ¥60,000bn banking package has done little more than stave off a financial crisis. What has not yet occurred is the type of dramatic shake-out in the sector which could actually deliver vibrant – and confident – banks able to compete effectively on the global stage. And though optimists hope this will come soon, this second task could take years to actually bear fruit.

The reason for this is that Japan's banking problems contain several inter-related strands. When the Japan premium first surged in November 1997, it was largely blamed on the vast pile of bad loans that the banks had accumulated after the 1990s bubble burst. But this actually told only part of the tale. For the existence of bad loans had, after all, been broadly suspected for years.

In practice, what most alarmed agencies such as Moody's was that the government's policy to the sector seemed unclear. For, after initially pledging to protect the largest banks, Hokkaido Tokai, a "city" bank, was allowed to fail in November 1997. And, since the government did not have the funds in place to protect depositors or creditors from another failure, Japanese banks suddenly posed a dangerous risk.

This spring, however, the government has shown that



it is committed to protecting depositors and creditors if a bank fails. The ¥60,000bn package, for example, includes ¥17,000bn of funds to guarantee deposits, and ¥18,000bn to nationalise weak banks. It also includes ¥25,000bn that can be used to expand the capital bases of banks to enable them to write off bad loans, of which ¥7,450bn was distributed in March 1998.

This safety net is not limitless: since the government insists that it will end in 2001, there is considerable uncertainty how loans will be treated after this date. But in the short term the safety net has reassured the markets. Furthermore, it is also encouraging the banks to implement more reform.

In fiscal 1998, for example, the banks are expected to write off around ¥10,000bn of bad loans, and implement a wave of restructuring plans. However, this restructuring and bad loan write-off programme still appears to be too little, too late. One reason is that more bad loans are expected to emerge this year, since the Japanese and broader Asian economy remains weak. Another problem is that most Japanese banks still seem to be far too optimistic in their assessment of their current bad loans: although the government is forcing them to make provisions for 15 per cent of their so-called "category two" bad loans to suspect borrowers, this appears to be too low.

"There seems to be little doubt that there will be a second round of public funding for the banks," says James Florio, analyst at ING Barings, who estimates that another ¥16,000bn of public funds and ¥3,000bn of operating profits will be needed over the next two years to allow the banks to write off their bad loans. But the other essential

problem is that the restructuring plans unveiled by the banks still appear to have the wrong focus. Most have trumpeted large cost cuts: the number of employees, for example, is likely to be cut by around 15 per cent in the next three years.

However, the cost bases of many banks have not been the biggest problem, since it is already relatively small, compared to their western competitors. Instead, the fundamental problem has been the banks' appalling low return on equity – and, above all, their poor revenue base. And this, in turn, stems from the fact that too many banks have been chasing similar forms of lending business.

"The key medium to long-term challenge of the Japanese banks is to increase revenues – cost-cutting, while it improves the bottom line, does not address the system's core weakness," argues Stephen Long, analyst at JP Morgan in Tokyo.

The banks are making some limited attempt to address this. Capacity is slowly being reduced through mergers: Yasuda Trust, for example, is likely to merge with Fuji next year. The banks are trying to develop a clearer business focus. Some, such as Daiwa, have withdrawn from overseas lending. Others, such as Industrial Bank of Japan, are now trying to create an investment banking focus.

However, such moves are still painfully slow by Anglo-Saxon standards, and mean that it could be years before the banks return to real profitability. "I don't think you can say the banking problems are over," admits Yutaka Yamaguchi, deputy Bank of Japan governor in an unusually frank comment. "I still expect to see much more restructuring soon."

KOREA by John Burton in Seoul

## Clean-up of troubled sector not yet complete

After sweeping reforms the banking system still has a long way to go before its problems are resolved

South Korea has made mighty strides in cleaning up its troubled banks, but analysts believe more still needs to be done if they are to survive and prosper.

"The Korean banking system has a long way to go before its problems are anywhere near to being resolved," said Damien Wood, of Barclays Capital in Hong Kong.

In the aftermath of Korea's financial crisis in late 1997, the International Monetary Fund demanded sweeping financial reforms in return for a \$50bn rescue package. Korea's swift response has earned it accolades as being the most aggressive among eastern Asia's battered economies in sorting out the banking industry.

The government has allocated Won64,000bn to recapitalise troubled banks, buy bad loans and protect depositors. Stricter reporting standards forced the banks to disclose Won128,000bn in non-performing loans, nearly 30 per cent of the gross domestic product.

Five of the biggest banks have been temporarily nationalised, while 10 of the nation's 27 commercial banks have disappeared through mergers. The number of bank workers has been cut by a third as the nation's network of branch offices is pruned. A new generation of managers has replaced those blamed for bringing the banks close to collapse.

Perhaps most importantly, the government has opened the banking sector to foreign investors, who will provide desperately needed competition and innovation in terms of sophisticated management skills and advanced information technology.

An investment fund led by Goldman Sachs, the US investment bank, recently became the largest share-

holder with a 17 per cent stake in Kookmin Bank, Korea's biggest retail bank, in a \$500m deal. Germany's Commerzbank has acquired nearly a third of Korea Exchange Bank. HSBC Holdings and Newbridge Capital, a US investment firm, have agreed to buy respectively SeoulBank and Korea First Bank, two nationalised banks.

Another sign of improved foreign sentiment was the recent success of Shinhan Bank in raising \$400m through global depositary receipts, the first overseas direct financing by a Korean commercial bank since the 1997 financial crisis. Other banks are preparing to tap overseas markets for funds.

Nevertheless, analysts remain cautious about the banking sector. One reason is that the amount of bad loans is likely to grow. "All governments, when confronted with a banking crisis, have underestimated the size of non-performing loans. Korea is no exception," said Sri-Ram Aiyer, the World Bank representative in Seoul.

Korea's Financial Supervisory Board (FSC) estimates that non-performing loans amounted to 7.4 per cent of outstanding loans at the end of 1998 after the government's Korea Asset Management Corp purchased bad assets from the banks. But Yong Han, banking analyst at SG Securities in Seoul, estimates the actual ratio is still more than 20 per cent, once precautionary loans are included.

The full extent of the problem is expected to become apparent this year as Korea's leading conglomerates, or chaebol, undertake restructuring to reduce their debt/equity ratio to 300 per cent by the end of 1999 in response to state pressure.

Struggling to meet the



HSBC Holdings has agreed to buy troubled SeoulBank

debt reduction target, the chaebol "are likely to demand concessions from creditors who will be forced to make compromises", including debt-for-equity swaps and debt restructuring, said Mr Han. The result will be that "the banks will be left holding the worst stocks. Good companies with strong cashflows and earnings have little incentive to convert debt to equity. Only the bad ones do."

More loans are expected to go sour as companies, protected under a "work-out" programme, go bust. The banks last year agreed not to foreclose on bad loans for "good" companies suffering from short-term cashflow problems due to the economic recession in the hope that they would recover soon. But FSC officials now concede that some of these companies are still likely to fail.

This will worsen the problems at the nation's biggest banks, which concentrated on lending to the corporate sector. They include Korea First, Chohung, SeoulBank, Korea Exchange and Hanvit, the last formed by a recent merger between Hanil and Commercial Bank of Korea.

The issue of hidden bad loans has delayed the takeover of Korean banks by Newbridge Capital and HSBC Holdings. Newbridge

is seeking a reduction in the value of some questionable loans held by Korea First. This would force the government to make a new capital injection into the bank after it provided Won1,500bn last year to save it from collapse.

Meanwhile, one HSBC executive cautioned that its proposed takeover of SeoulBank "is by no means a done deal until we complete due diligence". The failure of either deal to be concluded would be a serious blow to bank restructuring.

In contrast to the troubled big banks, other banks that have concentrated on retail banking or lending to small businesses are in better shape because of their limited exposure to the debt-heavy chaebol.

Healthy banks such as Kookmin, Shinhan and Housing & Commercial have better credit analysis skills than the other commercial banks, which were often forced to lend to companies favoured by the government.

It is these banks that are expected to dominate the industry in the future. They have the management expertise to exploit the shift from corporate lending to consumer-oriented retail finance as the chaebol reduce their dependence on bank loans in favour of direct financing in the equity and bond markets.

THAILAND by Ted Bardacke in Bangkok

## Institutions are suffering an identity crisis

Thai banks have essentially become asset management companies – and undercapitalised ones at that

In Thailand, commercial banks have ceased to be banks, at least in the traditional sense of the definition of a financial institution that takes deposits, lends money and makes money on the spread between the two.

Despite lending rates lower than those before the country's economic crisis hit nearly two years ago, net credit extension continues to decline. Deposits – also subject to historically low rates – are plentiful but are slowly being recycled into higher yielding instruments such as bank bonds coupled with preference shares, corporate bonds and the stock market. Even with a five percentage-point gross margin between deposit rates and lending rates, with 46 per cent of all loans non-performing, net interest spreads at most banks are zero or negative.

Instead, Thai banks have essentially become asset management companies – and undercapitalised ones at that. Most energy is devoted to recovering bad debt, making sure good debt does not go bad and ensuring that there is enough capital to absorb the inevitable write-downs.

"With near 50 per cent non-performing loans, we submit that banks are using tremendous resources including precious management time to clean up their portfolios. In such an environment, is it realistic to expect bank managements to be thinking strategically about the future and new business generation?" asks Merrill Lynch Patra Securities in a recent report.

The rest of the year will determine if Thai banks – and hence the overall economy – can return to some semblance of normality. There is now a plausible legal framework in place, a

supportive and at times far-reaching regulatory regime and a heavy dose of government spending that should boost domestic demand and could therefore turn bad loans into good ones and keep good borrowers solvent.

The owner-managers of banks must do four crucial things if they are to avoid being wiped out in another round of quasi-nationalisation.

**'Deposits are plentiful but are slowly being recycled into higher yielding instruments such as bank bonds'**

First and foremost, debt restructuring must be accelerated. In March, the Thai government won a bruising and drawn-out battle to overhaul legal regulations dealing with bankruptcy and foreclosure, an overhaul that bankers said was necessary to encourage debtors to sit down at the restructuring negotiating table.

In addition, recent inter-creditor and debtor-creditor agreements on procedures and deadlines for restructuring negotiations add teeth to the new legal framework. Banks should no longer have any excuse for delaying debt work-outs and should be prodded along by the sale later this year of three recently nationalised banks, probably to foreigners who have more experience with corporate restructuring.

Second, banks must stop the growth of "strategic" non-performing loans whereby borrowers who have the means to pay simply do not. And generous terms in debt work-outs can complicate the issue.

Those who can afford to pay but won't pay have told

those who are servicing their debts that they are being stupid in being good, well-behaved customers," Banthoon Lamsam, president of Thai Farmers Bank and chairman of the Thai Bankers Association said in a recent interview.

"There is a growing question over what reward society is offering the good bank customers... and that's dangerous," said Mr Banthoon.

"Good debtors may get the minimum lending rate for loans. But bad borrowers tend to get better offers through debt restructuring. Under current social norms, bad debtors don't get a bad name."

Third, if as a result of government economic stimulation the economy starts to pick up, banks have to start taking risks and lending again. "Will there be sufficient bank loans to meet companies' financing needs as the economy refuels?" asks David Proctor, head of the Foreign Bankers Association in Thailand.

Answers Mr Banthoon: "Banks are ready to provide loans to manufacturers with feasible projects."

But increasingly those companies with bright prospects are turning to the bond market for credit. Thai Farmers Bank estimates that between Bt40bn and Bt70bn of corporate bonds will be issued this year, more than 10 times last year's level. So, fourth, banks must fight the disintermediation trend with innovative and unprecedented lending plans.

If these tasks cannot be

completed quickly then the government is likely to be forced to revise its current financial institutions assistance plan whereby banks can receive an injection of capital from the government if they make heavy upfront provisions.

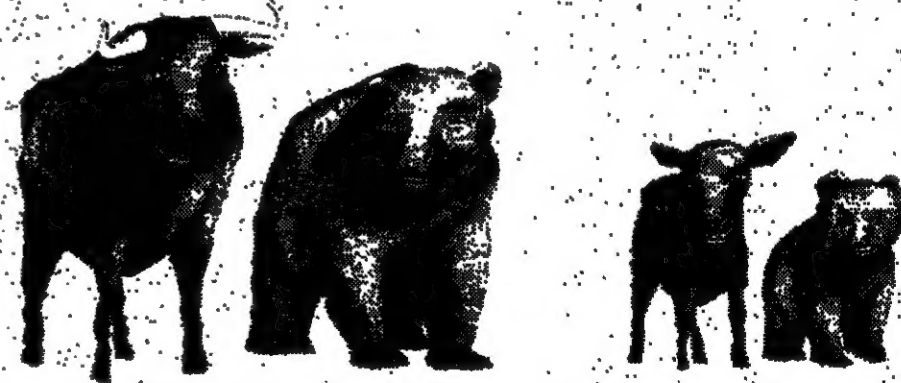
That plan has so far found few takers because banks would have to write down existing shareholders' equity upfront. "With most private banks consisting mainly of owner-managers, this means effectively asking the owner to give up his bank now without trying any other avenues first," says Kenneth Ng, banking analyst at ING Barings in Bangkok.

If the government chooses another tack, and some within the administration are already advocating one, it is likely to turn to a scheme similar to those in Malaysia and Korea where the government buys a portion of the banks' non-performing loans.

Tarrin Nimmanaheminda, finance minister, does not like this idea. He wonders how the government would raise the money needed to make the purchases and how it would arrive at a high enough price for those purchases to allow the banks to maintain adequate capital but low enough to be fair to taxpayers.

Mr Ng suggests that the government could take majority stakes in banks' asset management subsidiaries with a condition that the banks must buy back the stake at a premium in the future.

"The only problem with such a bail-out scheme is that it could be very sensitive politically. Given the alternatives we believe that this path will be taken in the end and that it is just a matter of time before it is embarked on," Mr Ng says.



**We cover both mature and developing markets**

Across Asia-Pacific and the Middle East, our expertise in custody and clearing has made us the leader in more markets, no matter what shape or size, than anyone else. [www.hsbc.com](http://www.hsbc.com)

**HSBC**

Issued by The Hongkong and Shanghai Banking Corporation Limited – Securities Services.



SINGAPORE versus HONGKONG by Edward Luce

## Intercity rivalry intensifies

Singapore's objective is to supplant Hong Kong as the premier financial centre in the region

Hong Kong and Singapore have long been held up as contrasting models of free market versus state-directed capitalism. However, many have started to question this view in the light of the city states' differing responses to the Asian financial crisis.

Officials in Singapore, which has been much less badly affected by the crisis than its rival, have sought to make capital out of the perception that Hong Kong has tarnished its free market credentials in the past year or so.

The city state's strong intervention in the stock market last August to fend off speculative attacks against the Hong Kong dollar has left the HK Monetary Authority (HKMA) in the embarrassing position of owing almost 10 per cent of the market. This, coupled with a number of bankruptcies or near bankruptcies among Chinese companies (the so-called "Nitties"), many of which are listed in Hong Kong, have raised questions about the city state's links to China.

Suspicious about Hong Kong's commitment to the free market have been fortified by the HKMA's repeated calls at global forums for direct regulation of hedge funds.

In contrast, Singapore has been loudly proclaiming its financial markets even to the extent of inviting hedge funds to choose Singapore as a regional base for their operations. Is this simply good, old one-upmanship? Or is there substance to the view that Singapore represents a threat to Hong Kong's primacy as a regional financial centre?

Few bankers in Asia would dispute the view that Singapore has taken big

strides to make itself more attractive to financial investors in the past 18 months. The Monetary Authority of Singapore (MAS) has unveiled a number of big tax incentives to persuade foreign banks to set up their regional or operational headquarters in Singapore. The drive has been underlined by the appointment 18 months ago of Lee Hsien Loong, deputy prime minister, as head of the MAS - the most senior official to take the post.

Although he downplays rivalry with Hong Kong, Mr Lee has made it plain that Singapore's objective is to supplant Hong Kong as the premier financial centre in the region. Singapore plans to achieve this through a series of initiatives.

First, the city state hopes to attract more foreign fund managers by dangling the carrot of the S\$80bn managed by the Central Provident Fund (CPF). Individuals can outsource management of their savings to tax-exempt or low-tax vehicles managed by the private sector, including foreign portfolio managers.

Restrictions on where these savings can be invested have been relaxed. And tax incentives have been offered for fund managers to operate in Singapore. Asset managers have welcomed the measures but few believe they will prove decisive in determining where funds are located.

Others point out that Hong Kong is launching a similar compulsory savings scheme - the Mandatory Provident Fund (MPF) - which will match the CPF within a decade or so. It will also be outsourced to the private sector. In addition - as public funds - there will be little opportunity for asset managers to make big margins.

"Fees will have to remain very low on CPF and MPF funds for political reasons so it doesn't set our pulse racing," said a senior US investment banker in Hong Kong.

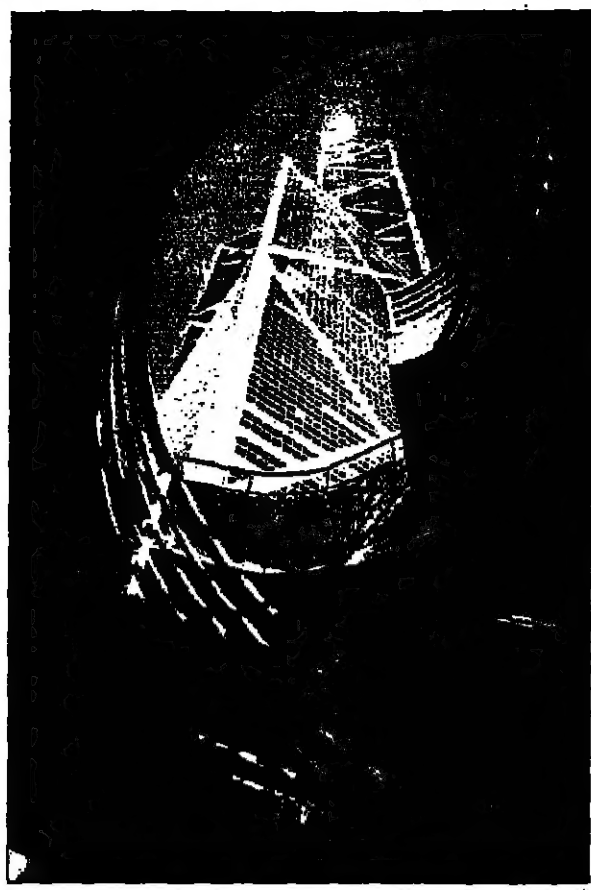
Second, Singapore is taking strides to improve the efficiency of its stock and derivatives markets. The Stock Exchange of Singapore (SES) and the Singapore International Monetary Exchange will demutualise later this year before merging. In addition, Simex will join Globex, the global derivatives alliance which also includes Matif of France and the Chicago Mercantile Exchange. Its participation in the first genuinely 24-hour global derivatives trading system will be accompanied by the launch of new derivatives products based on regional markets.

Simex has already launched index products based on the Hong Kong, Taiwanese and Thai stock markets. Again, however, Hong Kong has reacted quickly to Singapore's initiatives by relaxing its controls on the Singapore dollar, Singapore hopes to highlight the contrast with Hong Kong where paranoia over the stability of Hong Kong's currency board has led to the discouragement of the development of a liquid currency swap market.

In addition, Singapore's controversial contract based on the HKSE has been a flop while plans to launch a similar product based on the Kuala Lumpur index have had to be postponed owing to Malaysia's decision to impose capital controls on foreign investment.

Investors are sceptical about the effects of the merger on the SES which, in contrast to Hong Kong, remains dominated by share listings of relatively illiquid government-linked corporations.

Third, Singapore has attempted to stimulate the development of a domestic bond market by extending the government yield curve to 10 years and permitting



Towering Hong Kong banks: the city state cannot afford to be complacent as the competition from Singapore increases

foreign issuers, such as the Nordic Investment Bank and the European Bank for Reconstruction and Development, to swap Singapore dollar proceeds into US dollars.

By relaxing tight controls on the Singapore dollar, Singapore hopes to highlight the contrast with Hong Kong where paranoia over the stability of Hong Kong's currency board has led to the discouragement of the development of a liquid currency swap market.

Hong Kong has not followed Singapore in offering tax incentives to foreign banks to lead-manage domestic bond issues. "We are not prepared to subsidise Hong Kong's development as a financial centre because this would distort the allocation of resources," said Joseph Yam, head of the HKMA.

Singapore's ambitions have undoubtedly been boosted by Malaysia's decision to impose capital controls on foreign portfolio investment and Thailand's economic woes. This leaves Singapore as the only viable financial centre for south-east Asia. The city state has also boosted its credibility

by adopting a lighter regulatory touch - moving from "regulation to supervision" of the banking sector, according to one MAS official. However, bankers say the city state faces an uphill task in establishing a thriving financial market.

"Singapore is a great service centre for foreign banks but does not yet have a genuine financial trading culture," said one. "It is easy for Singapore to make dramatic gestures because it is a very highly regulated economy. Hong Kong can't really do this because it is already a free market."

Others point to the long-term need for the two city centres to co-operate even to the extent, perhaps, of launching a joint trading platform for the two stock exchanges. Either way, Singapore's aggressive tactics have had a tangible effect on Hong Kong.

"Hong Kong can't afford to be complacent because it is facing competition," said one Hong Kong official. "We think there is plenty of room for two financial centres. And we welcome competition: it keeps us on our toes."

MALAYSIA by Sheila McNulty in Kuala Lumpur

## Go-it-alone plan to restructure banks

The government has made an effort to recapitalise institutions, but bankers remain unconvinced that their problems are over

While other countries in the region have sought outside help in restructuring their banking sectors, Malaysia has chosen to go it alone.

The government has estimated it will need RM18bn to recapitalise the banking system and RM15bn to purchase its non-performing loans (NPLs). Although banking analysts believe the authorities are being overly optimistic in their estimates of the amount of money that will be needed, they note Malaysia has been creative in obtaining access to much more than those amounts.

The government established an asset management company, Danaharta, to buy the non-performing loans (NPLs) from the banking system and a special purpose vehicle, Danamodal, to recapitalise the institutions.

As at March 15, Danaharta had purchased and was managing M\$21.7bn in NPLs from the financial system, of which RM15.1bn were from the banking system. These NPLs accounted for 30 per cent of banking system NPLs at the end of 1998. Danamodal had injected capital into 10 banking institutions in the form of loans amounting to M\$6.15bn, increasing the risk-weighted capital ratio (RWCR) of the banking system from 11.2 per cent as of the end of June 1998 to 11.9 per cent at the end of January 1999.

To fund these efforts, Gan Kim Koon, banking analyst at SG Securities, noted that

by early January Malaysia had received US\$3.57bn in lending commitments from foreign sources, ranging from the 12 foreign banks based in Malaysia to the Overseas Economic Co-operation Fund through the Myazawa Plan, to the World Bank. And he calculated that it had M\$250.7bn in total resources available locally from sources ranging from the national pension fund to the national oil company to the armed forces fund.

"The big question of how Bank Negara Malaysia (the central bank) was going to fund its reform efforts should no longer be an issue with Malaysia having secured sufficient funding through foreign borrowings and the use of clever methods to raise funds from domestic available sources," Mr Gan said.

But the heads of the institutions remain unconvinced that their problems are over. They refused to respond late last year to threats to sack the heads of financial institutions that did not meet 8 per cent annual loan growth by year's end. Total loans of the banking system declined by 1.5 per cent in 1998. And this year bankers are resisting pressure to lend to small and medium-scale industries. Many of them remain wary of getting themselves back into trouble.

The banking system went into the regional financial crisis with domestic debt at 170 per cent of gross domes-

tic product, which economists said was the highest ratio in south-east Asia and one of the highest in the world. And that made it highly vulnerable to last year's recession.

The sector recorded a pre-tax loss of M\$2.3bn in 1998, swinging from a pre-tax profit of M\$7.7bn in 1997. And the institutions are still overextended. Total banking system loans amounted to M\$413.6bn at the end of 1998, or M\$428.7bn including non-performing loans sold to the government's asset management company.

But the authorities are desperate to revive an economy that contracted 8.7 per cent last year, after recording 7.7 per cent growth in 1997. And getting banks to lend is the best way they see of doing that. Analysts suspect that is the motive behind an announcement in March to review the performance of bank directors and chief executives periodically.

Moody's Investors Service noted in a recent report, however, that "the Malaysian government's attempts to revive economic growth by instructing banks to lend more will only lead to additional loan losses". And, beyond that, analysts say, is the risk that the errant bankers who have been rescued by the government's NPL purchasing and subsequent recapitalisation efforts will eventually get over their fears of lending and set themselves up for another crisis.

INDONESIA by Sander Theonnes in Jakarta

## Gordian knot is slowly being unravelled

Commercial banks have signed recapitalisation contracts to ease liquidity

After more than a year of half-measures and delays, Indonesia has finally started untying the Gordian knot of declining liquidity and mounting debt that has paralysed its financial system.

Owners of nine commercial banks signed recapitalisation contracts with the government on April 15, pledging to put up 30 per cent of the required capital injection in return for an injection of government bonds equal to 80 per cent.

The recapitalisation of Bank Intermeng, Bank Lippo, Bank Bali and six smaller banks, totalling Rp21,300bn, would bring their capital adequacy ratio back to 4 per cent, from current negative rates.

Bank owners pledged to bring this ratio to 8 per cent by 2001, in part by repaying loans to affiliates, often well in excess of the legal lending limit of 80 per cent. Non-performing loans will be transferred to a government Asset Management Unit.

In addition to the nine commercial banks, Indonesia plans to inject similar bonds into seven large state banks, 11 nationalised commercial banks and 14 regional banks. The cost target was Rp300,000bn, plus interest, but bankers expect the total to exceed Rp500,000bn as bank assets have rapidly deteriorated while the central bank delayed the recapitalisation for months.

The injection of capital and bonds is designed to stem the decline in liquidity, caused by a sharp jump in interest rates and a rush on the banks since August 1997, which left banks paying out higher deposit rates than they earned on central bank paper. A nationwide liquidity crunch caused loan portfolios to deteriorate to such an extent that bankers now believe more than 80 per cent of all outstanding loans are non-performing.

"The whole country lives on IOUs," one European banker in Jakarta said. "Nobody pays anyone."

Although this stand-off has enabled companies to keep running on cashflow, it has blocked them off from any new foreign or domestic loans. Exporters, which often would be able to pay their dues, have been unable to get letters of credit from local banks or confirmation from international banks, causing exports to drop.

Bankers and economists in Jakarta said the recapitalisation and restructuring programme would slow down but not halt the slide towards illiquidity, because it would inject too little liquidity into too many banks, while failing to address the mounting domestic and foreign debt overhang.

"It's an accounting trick," one western banker said. "It's just buying time. More

banks have to close, there has to be a forced consolidation of the industry."

Such harsh judgments were based on the government's stated intention to offer bond interest rates that were well below the market rate, currently around 35 per cent. This would leave banks with bonds they cannot sell, earning them only interest and the cash injections from the owners while the negative spread between deposit and central bank rates would continue to eat up capital.

Indonesia cannot afford market rates but officials indicated in mid April that they would get much closer to the going rate than they had stated earlier. Government advisers said the government was likely to choose a rate that would be high enough for bonds to be marketable if interest rates would continue to go down.

Economists say this could work if the government also pushed ahead with debt restructuring. The Indonesian Bank Restructuring Agency has already taken on Rp200,000bn in loans, most non-performing, from state banks and banks it has shut down or nationalised. It has been given legal powers to seize collateral or assets without a court order but it also faces a political hurdle as many of the worst debtors are relatives and associates of former president Suharto and several current cabinet members.

CHINA by James Harding in Shanghai

## Warning shot to sector

Gitic's closure illustrates the "damned if you do and damned if you don't" dilemma of China

China has done in the past year to address some of the problems in its financial sector. It has streamlined the central bank's regional organisation; introduced a more accurate and transparent system of asset classification; and established the first asset management company to repackage and sell bad debts.

But, this progress has been eclipsed for many international bankers by a more striking change to China's financial landscape - the collapse of Guangdong International Trust and Investment Corporation (Gitic).

Gitic's closure has illustrated the "damned if you do and damned if you don't" dilemma that China and other emerging economies face in coming to grips with a troubled financial system.

On the one hand, the closure of Gitic, a badly managed investment company with underperforming assets, excessive foreign borrowings and facing an increasingly acute liquidity crisis, was a necessary step.

On the other hand, the sudden decision to shut down one of China's best known finance companies and large-

est international borrowers, regardless of Beijing's worthy intentions, caused at least a short-term crisis of international confidence in Chinese creditworthiness.

Zhu Rongli, the Chinese prime minister widely thought to be behind the move to shut down the company, was applauded for administering the painful medicine to reform the financial sector.

The failure of Gitic was a warning shot to the rest of the state-owned financial community, particularly the 239 other trust and investment companies known as the Itics, that in troubled times they could not always count on the government to come to the rescue.

As the Asian financial crisis unfolded, China had seen the cost of incompetence, cronyism and, in South Korea in particular, the danger of the unchecked growth of unregistered foreign borrowings. And, with the closure of Gitic, Beijing moved to bring wayward financial companies to heel.

But, foreign bankers were rattled. Gitic was the investment arm of the government's most prosperous

region, the southern province of Guangdong. The company had outstanding debts of more than \$4.3bn, mostly owed to international creditors. As a provincial government-owned institution, Gitic's interests spread through large areas of southern Chinese business, acting as guarantor of infrastructure projects and developer of large tracts of real estate.

Gitic was representative of the kind of financial institution with which hundreds of foreign banks and investors had long been accustomed to doing business - a government-backed financial institution whose commercial exposures were mitigated by the pledge of state backing, i.e. quasi-sovereign risk.

In the aftermath of Gitic's administrative closure in October last year and once again when the company filed for bankruptcy in January, overseas creditors found the comfort letters and commitments of support from the provincial government were - as they had been told by central bank officials in the past - worthless.

The lesson should be clear to foreign lenders. Xiang

Huacheng, finance minister, said: "The foreign bankers themselves should look really carefully at these loans."

Having judged the loans strictly on their commercial merits, many foreign bankers moved sharply into retreat. From the headquarters of a number of German and Japanese banks, an order came to stop all new lending to Chinese borrowers. Other smaller banks have sought to call in loans, activating technical default clauses. The Royal Bank of Canada has closed its offices in Shanghai.

The resulting credit squeeze has added to the strains on a number of corporate borrowers, particularly the Itics. But, the crisis of confidence has been limited. Foreign lenders, which may become more commercially rigorous in China as a result of the Gitic experience, have made a distinction between the non-bank financial institutions on the fringes of the financial sector and the main state banks at the core of China's economy and social stability.

This month, the Gitic saga

is moving closer to resolution. And, the dilemma of banking sector reform is leaving deeper marks on China.

First, Beijing appears to have been struck by the strength of foreign reaction to the Gitic closure and has suggested that it will tread more gently in handling troubled financial institutions. Rather than forcing the closure of other indebted Itics, central bank officials are looking to restructure the sector through mergers and acquisitions.

Second, foreign banks are taking a more circumspect attitude to China risk, but clearly retain an underlying interest in the long-term development of the market. Rather than pulling out of China, banks are taking a more scientific and commercial approach to lending decisions and foreign lenders are distinguishing the greater risks at the fringes of the financial sector from the more reliable institutions.

Third and most important, the Gitic experience has underlined the need and the delicacy of the reform process in the core banking sector. The extent to which things had gone astray at Gitic as well as the fall-out among foreign creditors when the company was closed has served as an ominous warning.

PRIVATE EQUITY by Peter Montagnon

## Money flows in but deals are held up

It has proved hard to match expectations of buyers with those of sellers who are still reluctant to accept fire-sale prices

When South Korea put two state-owned banks up for sale last year, most people expected they would go to established international banks looking for a toehold in a new, and potentially lucrative market. In fact, the first deal to be struck - for Korea First Bank - was not with a bank at all, but with a consortium led by Newbridge Capital, a private equity house based in the US.

The Newbridge deal has proved controversial and negotiations on the small print have involved some fierce arguments over how much the government

should stump up to cover potential losses in the bank's loan book.

But, though it is large and high profile, the deal and the difficulties in implementation are typical of the opportunities in private equity and venture capital that are slowly opening up in Asia in the wake of the regional economic crisis.

The idea that the crisis would see a flood of distressed assets up for sale as entrepreneurs struggled to meet mounting debt burdens seemed to promise an immediate boost to private equity business as the crisis broke in 1997. In fact, while the

specialists, known pejoratively as "vulture funds", still hover in keen anticipation, deals across the board have been slower to complete than many expected.

Money from institutions is still flowing in. According to the Hong Kong-based Asian Venture Capital Journal, private equity funds raised for investment in the region last year totalled \$5.05bn. This was down substantially on the \$5.9bn raised in 1997, but it still marked the fifth year in a row that fund flows have exceeded \$5bn, and is more than double the amount at the start of the decade.

The bigger difficulty has been in finding assets to buy with all this money. It has proved hard to match the price expectations of buyers

with those of sellers who are still reluctant to accept fire-sale prices. "Bottom fishers are fishing furiously at the bottom. The people selling don't want to give it away," says Rhoddy Swire, chairman of the London-based Pantheon Group.

Also, the continuing lack of strong bankruptcy laws in many countries means even owners of insolvent businesses are not being forced to sell because their bankers have no means of imposing foreclosure.

There is still a cultural divide in matters such as transparency, control and documentation, adds Roger Marshall, executive director of Crosby Asset Management in Hong Kong. This calls for a new approach in matters such as control, with possibly a more "hands-on" role for

investors, he says. With larger funds entering the market, the average size of deals, traditionally about \$10m, has been rising. Only a few, such as the recent purchase by Lazard Asia of a large stake in Sing Tao, which publishes the Hong Kong Standard, attract much publicity. And many deals are still on the small side for large US institutions used to investing \$50m at a time.

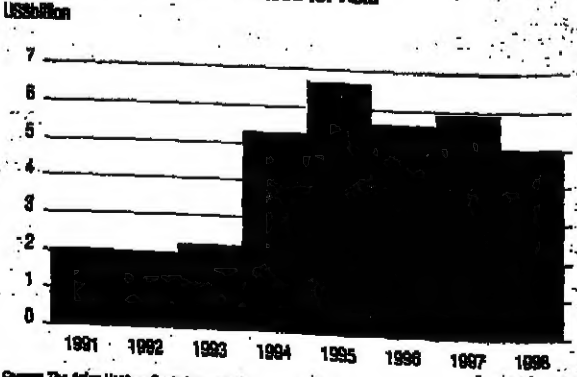
Some bankers say the best route for big investors may be to buy distressed bank debt in government auctions as GE Capital, the financial services arm of General Electric, has done in Thailand. But GE Capital has itself been building a sizeable financial services business in Asia, and other bankers say there are good deal

opportunities for those with the patience to hunt them out.

Over the past year some of the best such opportunities have been in Japan and South Korea offering some of the best opportunities. The key remains relationships, says Simon Murray, the former Asian head of Deutsche Bank, who launched a fund of up to \$500m last year with partners including GE Capital and Mitsui. Some \$200m has now been raised and Mr Murray expects the total to reach around \$800m by the time subscriptions close in June.

So far the fund has made three investments totalling around \$60m in a Japanese telecommunications company, a Chinese natural resources company and a Hong Kong property con-

New venture capital funds raised for Asia



Source: The Asian Venture Capital Journal

cern. For Mr Murray that represents a reasonable deal flow. For others it might seem a little slow. One problem for the larger houses is that their hasty approach and lack of connections in Asia has tended to put potential sellers off, bankers say. Another remains the uncertainty over exit routes.

"To the extent that private equity has a single problem, it is the lack of a viable exit," says Dan Schwartz,

publisher of the Asian Venture Capital Journal. Asian stock exchanges are neither big enough nor deep enough to absorb truly large transactions.

With only faltering recovery at best expected in Asia, and the acute need for the business and banking sector to recapitalise, however, the chances are that buyers and sellers of distressed assets will face increasing pressure to conclude deals.